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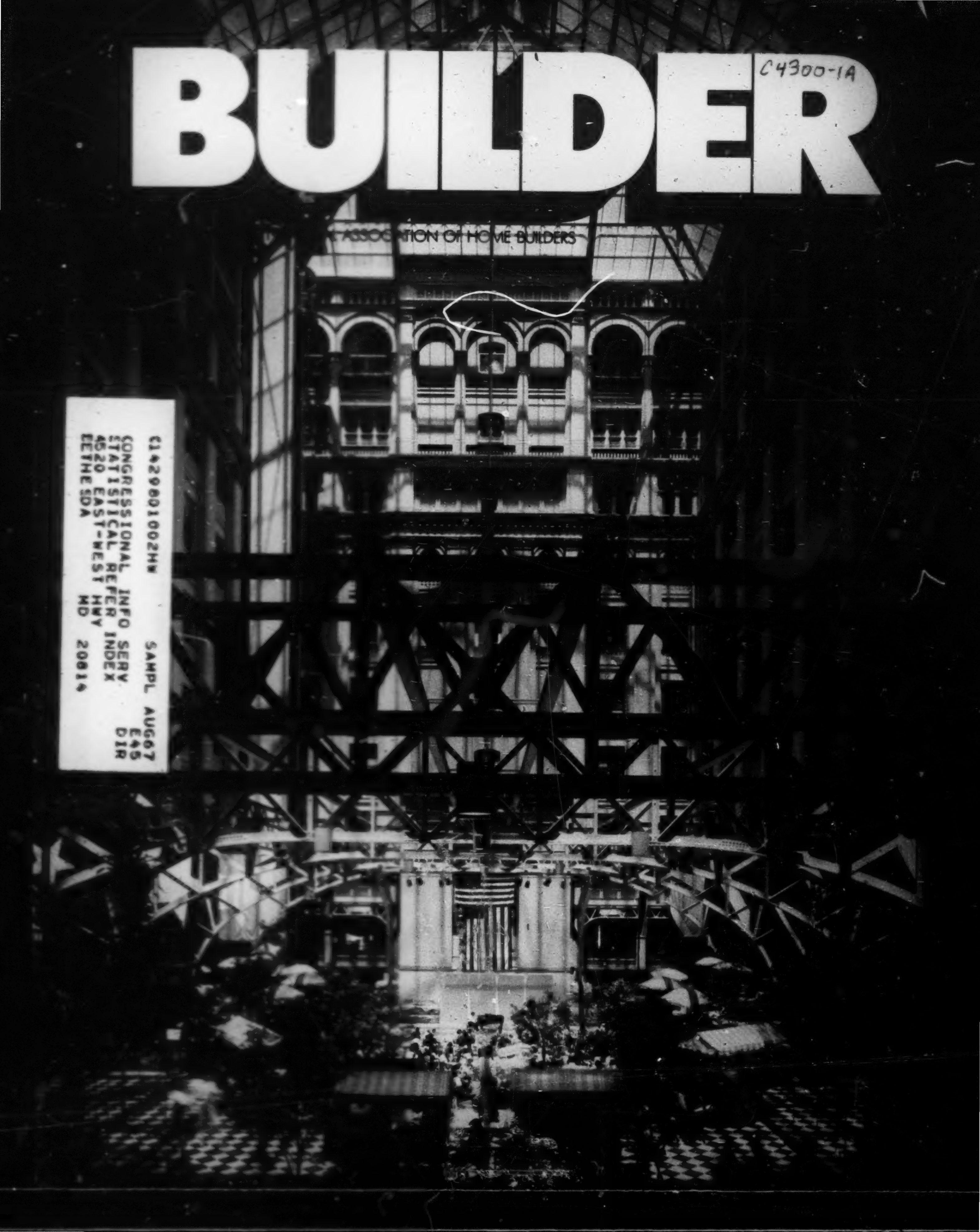

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VOLUME 7, NUMBER 11 ■ NOVEMBER 1984

BUILDER

COLUMNS

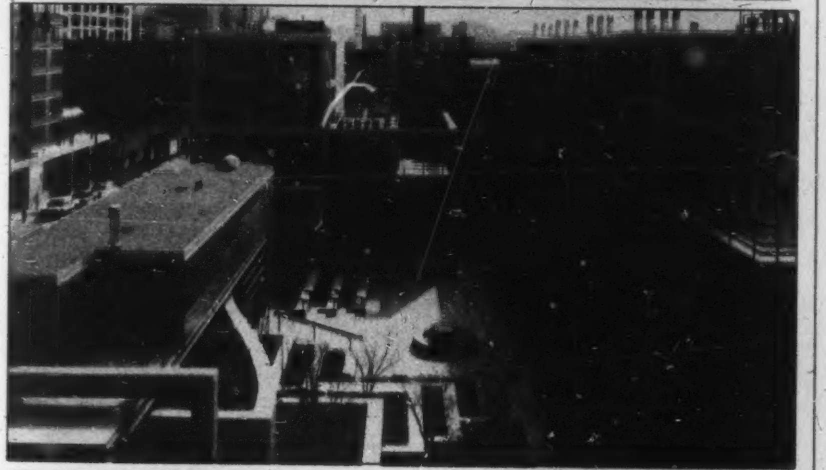
5 About Building
18 Money
22 Washington
26 Marketing

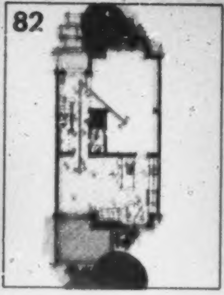
DEPARTMENTS

11 Outlook
98 Sketchbook
100 Shoptalk
103 NAHB Report
110 New Products
116 Product News
127 Ad Index
128 Mail

NEWS

30 Builder bonds catch on as mortgage tool
32 Throwback small house suits today's buyers
32 Zero-coupon bonds may run afoul of IRS
38 Salomon Brothers to acquire HOMAC
40 Back to the old days, the very old days
44 Paradise found: Buyers grab $1 million units
48 Developer takes deer to heart
48 Congress gives builders 11th hour victory
52 Two cooks can't spoil the broth
56 Contemporary design plays in Princeton
56 Condo hotels finding room in resort areas
60 ARM guide enlightens confused shoppers





64—MIXED USE

Once exclusively big city extravaganzas, mixed-use projects now are cropping up in smaller markets. Why? Because the payback is fast and fat, though the risks are high.

(Cover: The Old Post Office, Washington, D.C. Photo: Copyright Maxwell MacKenzie)

74—THE ROUSE TOUCH

During the last 25 years no builder has been more innovative than James Rouse. Now, at 70, he's turning to housing the urban poor.

82—DESIGN WORKSHOP: FLOOR PLANS

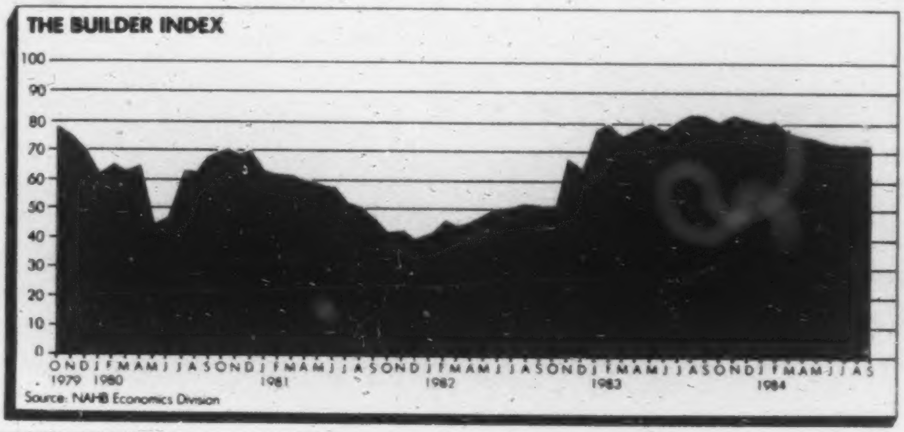
Higher density and smaller units have put the squeeze on floor plans. This story shows how to make small units feel roomy. Prepared with BUILDER's contributing design editor William Devereaux, AIA, Berkus Group Architects.

88—PROJECT OF THE MONTH

The Berco Group didn't fight with—they negotiated with—a conservative town and finally won approval for Fieldpoint, a highly successful cluster development.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION


THE BUILDER INDEX

Source: NAHB Economics Division

The BUILDER Index slipped further, to 73.54. The cause: high interest rates.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Slow Growth

Michael Sumichrast
NAHB chief economist, Washington, D.C.

After an unusually strong first half the pace of economic activity has slowed decidedly, suggesting that the preoccupation with too much growth and the danger of renewed inflation has been largely misplaced. Strong growth should have been expected—and welcomed—but the doomsayers worried instead.

I happen to enjoy prosperity and growth, and that growth never seemed out of control to me. All along I forecast low inflation beyond the initial stage of the recovery. That because world commodity prices still are depressed, oil prices stable and the dollar strong.

Clearly, the increase in mortgage rates started to affect housing in the second quarter of 1984 and continued throughout the summer.

In spite of the recent slowdown the economy has been performing remarkably well. Inflation is modest, corporate profits are nearly 50 percent higher than two years ago ($239.3 billion, second quarter 1984, compared with $160.9 billion, second quarter 1982); per capita disposable income has been increasing for two years and now is close to 10 percent in real terms; we also have seen strong improvement in the stock market and a record increase in employment.

Economists are trying to figure out if this recovery, characterized by high growth and low inflation, can lead us into the kind of prolonged economic expansion that prevailed in the early 1960s. Or is it just typical?

To me this recovery, with one exception, doesn't seem radically different from others. The one difference is the business climate. The Reagan administration is clearly pro-business, and it shows all over.

There is, however, one problem: the deficit. While there is no agreement on whether economic growth will continue without inflation, there is overwhelming agreement that neither can continue with deficits as high as they are.

The deficit for fiscal 1984 is estimated at $174.3 billion, $21 billion less than last year's record deficit but still, too high. And the administration estimates next year's deficit will be $167 billion, despite the assumptions of a strong economy and declining interest rates.

With the rate of economic growth so high deficits and the debt-to-GNP ratio should be declining. But they are not. During World War II the federal debt was about 130 percent of the GNP. (In 1946 the debt was $271 billion, and the GNP was $209.8 billion.) By 1974 the debt-to-GNP ratio had declined to 34 percent. But now it stands at 43 percent, and the Congressional Budget Office estimates that by 1989 it will be 50 percent.

As long as this continues, there is little prospect of a decline in interest rates. What may bring interest rates down is an easing of monetary policy. Already there's been some easing, as the Fed responds to slower growth and the strength of the dollar. Because of that strength the trade deficit will exceed $100 billion this year and foreign capital is flowing into the country.

What also may bring interest rates down is a more rapid deceleration of economic growth. That may happen sometime next year; 1984 seems immune to rapid economic decline.

Meaningful action on the budget would be welcome. That, however, won't happen before next spring. In the meantime, the direction of interest rates will be determined by the economy. It is a good bet that economic growth will

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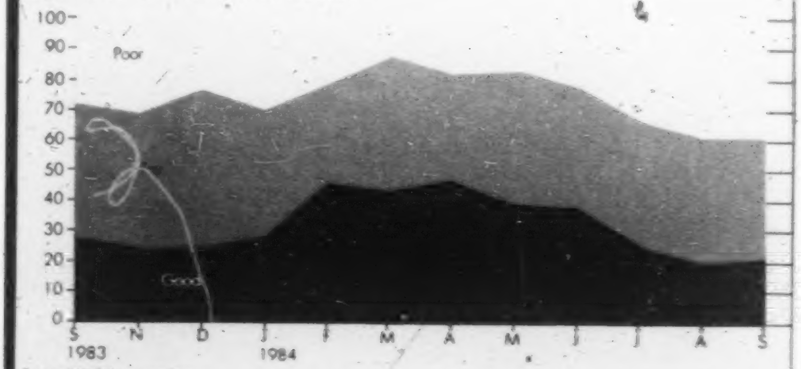
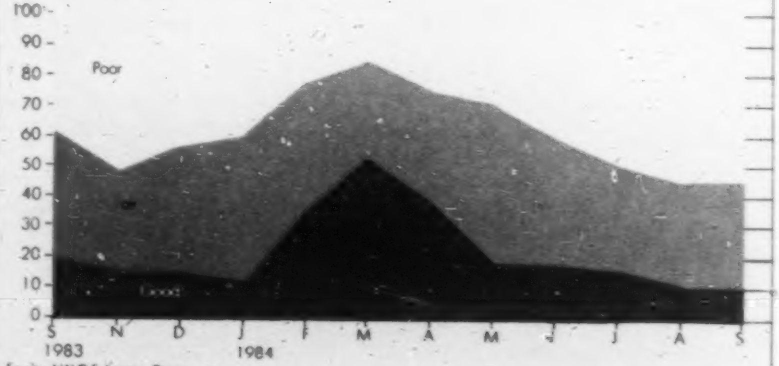
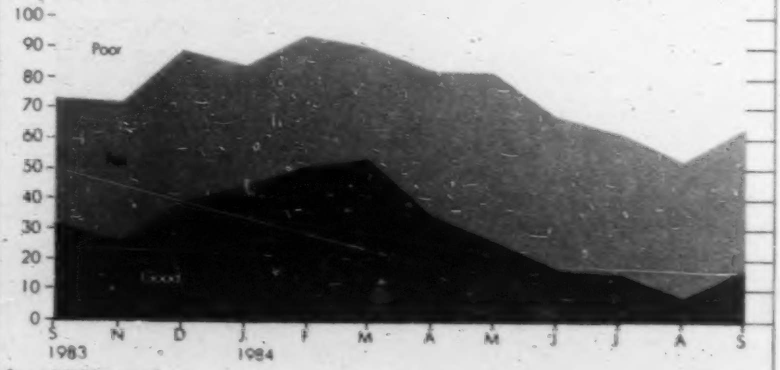
OUTLOOK/BUILDER POLL



CURRENT SALES
(new single-family detached homes in percent)
Source: NAHB Economics Division



CURRENT TRAFFIC
(all new homes in percent)
Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)
Source: NAHB Economics Division

ENCOURAGING SIGNS

For five straight months, from March through August, the BUILDER Poll showed a steady and pronounced decline in traffic of prospective buyers, new single-family home sales and builders' expectations for new home sales. In September the decline was halted.

Builders' expectations in particular changed rather dramatically (bottom chart). The percentage who expect new homes sales to be good during the next six months increased to 18 percent, up from 8 percent a month earlier and up to the highest level since early summer.

Why the change? A North Carolina builder offered an explanation: "The market," he said, "is not as hot as it was this spring but, with interest rates dropping slightly, the outlook still has to be encouraging."

Traffic and the present pace of new detached home sales did not increase nearly as much as expectations improved (two top charts), but they did level off after months of sliding down.

It's too early, however, to call the first signs of a turnaround the start of a trend. The NAHB economics division, which conducts the poll, says the indicators must increase (or decrease) for at least three months before a trend can be established.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

RICH GET RICHER

Median family income increased last year, but so did the poverty rate, indicating that higher income families got proportionately more of the income gain. Median family income, adjusted for inflation, rose 1.6% in 1983 to $24,580, the Census Bureau reported recently. At the same time, the poverty rate increased to 15.2% of the population from 15.0% the year before. (A family of four was considered to be poor if its income last year was $10,178 or less.)

OFFICE OCCUPANCY UP

The national office vacancy rate fell nearly one percentage point from 15.2% early this year to 14.4% by summer's end, according to a survey of 21 cities by Office Network, Inc., a Houston-based real estate firm. The vacancy rate drop has produced a 6% increase in office rental rates which now average $20.61 per square foot. Dallas has the most office space under construction followed by New York, Washington, D.C., Los Angeles and Chicago.

SLOWER GROWTH

The growth of household formations should slow down next year because most of the doubling up which occurred during the recession will have undoubled by then, and fewer people are getting divorced. That mixed news comes from Chase Econometric Associates, an economic forecasting firm, which predicts 1.6 million new households for the year ending July 1, 1985 (with most of that increase coming in the second half of 1984), and a 1.5 million increase for the following year.

PHOENIX RISES TO TOP

Phoenix led the nation in new housing units during the second quarter of this year with 15,700 starts, up 9% from the same period last year, reported the F.W. Dodge Division of McGraw-Hill Information Systems Co. The other top 10 areas for housing construction were Atlanta, 13,400 units (up 41%); Dallas, 12,000 units (down 34%); Washington, D.C., 10,900 units (up 12%); Fort Worth-Arlington, Tex., 10,000 units (up 17%); Riverside-San Bernardino, Calif., 9,800 units (up 36%); Los Angeles-Long Beach, 9,600 units (up 65%); Tampa-St. Petersburg-Clearwater, 9,400 units (up 16%); San Diego, 8,400 units (up 65%) and Houston, 8,200 units (down 55%).

SATISFIED CUSTOMERS

Americans generally are satisfied with their housing, but they would like more interior living space and more outdoor privacy. A survey of 5,000 households by the Harvard/MIT Joint Center for Urban Studies has found that only 4% of homeowners and 12% of renters are dissatisfied with their general housing condition. But 18% of owners and 24% of renters are dissatisfied with the amount of interior space. And 14% of owners and 28% of the renters want more outdoor privacy.

VACANCIES NOT VOLATILE

The rental housing vacancy rate is likely to remain at about 5.4% throughout 1985, predicts the National Association of Realtors. Vacancies have been at about that level for the past two years.

CONGRESS BACKS OFF

Before adjourning last month, Congress backed off a bit on the new imputed interest rate rules on seller-financed real estate which were included in the 1984 tax bill. Congress delayed implementation of the rules for six months until July 1, 1985, for property selling for less than $2 million. Real estate selling for more than $2 million will become subject to the new rules January 1. The rules require that the rate be at least 110 percent of the comparable Treasury bill rate. But a blended rate is allowed during the freeze to permit lower rates on the first $2 million.

CONTINUED FROM PAGE 11

slow during the balance of this year, and that will cause a modest decline in interest rates. Nonetheless at the end of the year interest rates will be higher than they were at the beginning.

Rates have affected housing. Housing starts dropped 6 percent in July and 13 percent in August; permits were down 11 percent in July and 4 percent in August. All in all starts are down nearly 32 percent from the February peak, and building permits are down 21 percent. Single-family starts are down 38 percent from peak and 29 percent from the level of the first quarter.

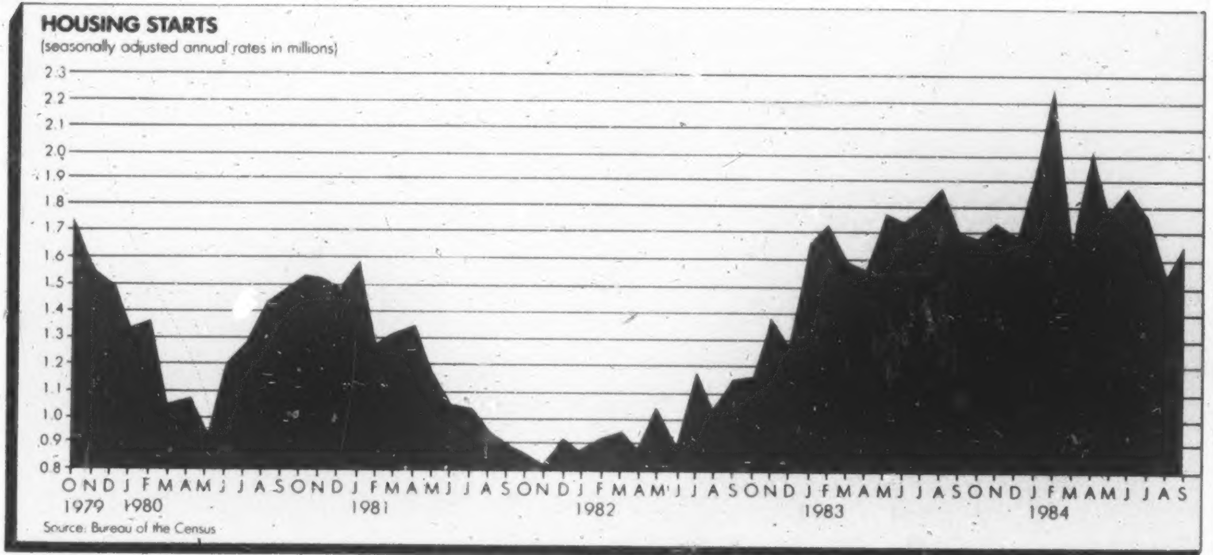
The multifamily sector showed a great deal of strength in early summer, but it, too, has dropped considerably in the past two months. High interest rates and a very soft condominium market explain the drop. In addition condos are overbuilt in some markets, particularly in the South.

The soft condo market also is depicted in its declining share of the market since 1982. At that time the condo share reached almost 40 percent, but by the first quarter of this year it stood at just more than 20 percent.

Expect housing starts to continue to soften for the balance of the year and into 1985. Only a further decline in interest rates can reverse that. At 14 percent, fixed-rate mortgages are simply too high to sell more houses, and ARMs aren't as attractive as they were a year ago. For one thing the spread between ARMs and fixed-rate mortgages has narrowed. The negative publicity about ARMs hasn't helped either. Add to that the more stringent processing by lenders, and it points to a decrease in appeal of variable-rate mortgages.

What will help housing is the expansion of mortgage tax-exempt revenue bonds, now fairly widely used. Can they make a difference? Yes, some. But they cannot prevent a further decline in sales and starts.

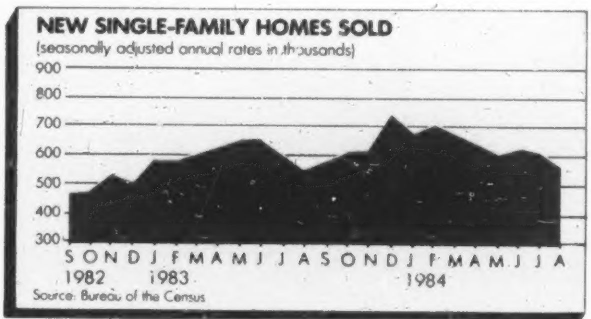
OUTLOOK/STATISTICS


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

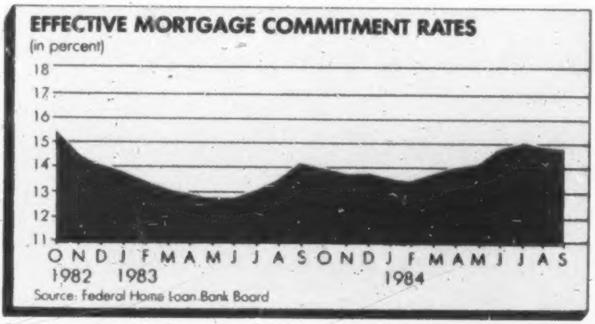
Starts rebounded in September to an annual rate of 1.68 million, a 9% rise. But hold the applause: Building permits authorized dropped 5.4%, so expect October starts to drop.


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

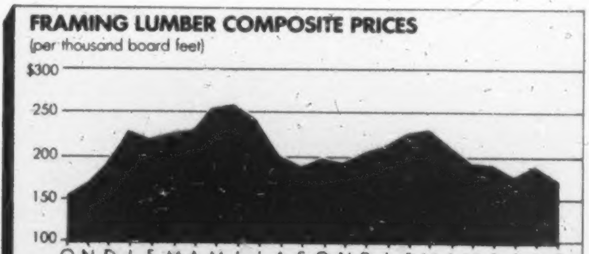
Sales fell 8% in August to an annual rate of 569,000, following a downward revision of the July rate. The August sales rate was 2% higher than a year earlier.


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

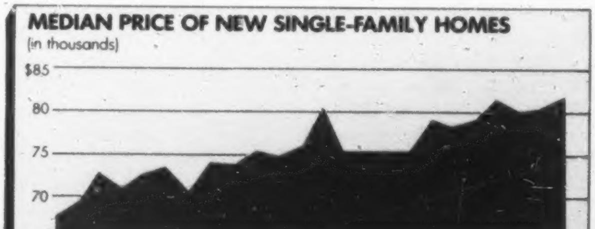
Commitment rates on long-term, fixed-rate loans declined nine basis points in September to 14.91%—the lowest level since May—but uncapped adjustable rates rose three basis points to 13.19%.


FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices slumped 5% in September to $180 per thousand board feet, the lowest price since November 1982.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median sales price of new homes jumped nearly $1,000, or 1%, in August to $81,600 from the upwardly revised July price of $80,700. The August price was 6% higher than a year earlier.

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VOLUME 7, NUMBER 12 ■ DECEMBER 1984

BUILDER

COLUMNS

5 About Building
18 Money
24 Washington
28 Marketing

DEPARTMENTS

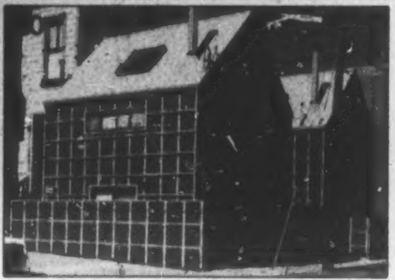
11 Outlook
96 Sketchbook
98 Shoptalk
101 NAHB Report
108 New Products
120 Product News
127 Ad Index
128 Mail

NEWS

32 Despite recovery S&Ls are in trouble
33 New American Home to be unveiled in Houston
36 Economists forecast a good year ahead
40 Selling these homes is a real trip for brokers
40 Sunshine alone heats Colorado home
42 Gypsum prices will keep on rising
46 Ad index delivers message to industry
46 Tightest house in town attracts 115,000 people
48 Real estate boom expected to continue
50 Home prices fall
54 Some homeowner tax deductions may be cut
54 Supreme Court to hear landmark zoning case
58 New law may hit builder taxes
58 No boxing gloves needed in Mentor

64

76



64—INSIDE LOOK
Small houses already have made their mark. Now it's time to start thinking about small projects on small sites. They're a big, too often overlooked, opportunity.
(Cover: The Fairways, Newton, Mass. Photo: Copyright 1984 Richard Mandelkorn)

76—FAVORITE 50
BUILDER's third annual recap of the 50 new products that generated the most inquiries during the last year. Among the favorites: manufactured houses, specialty windows and products for the bath.

90—PROJECT OF THE MONTH
Remember affordable is a relative term. And in the oh-so-pricey in-town San Francisco market, builder-architect Donald MacDonald has found a ready market for tiny, $120,000 houses that he calls garden cottages.

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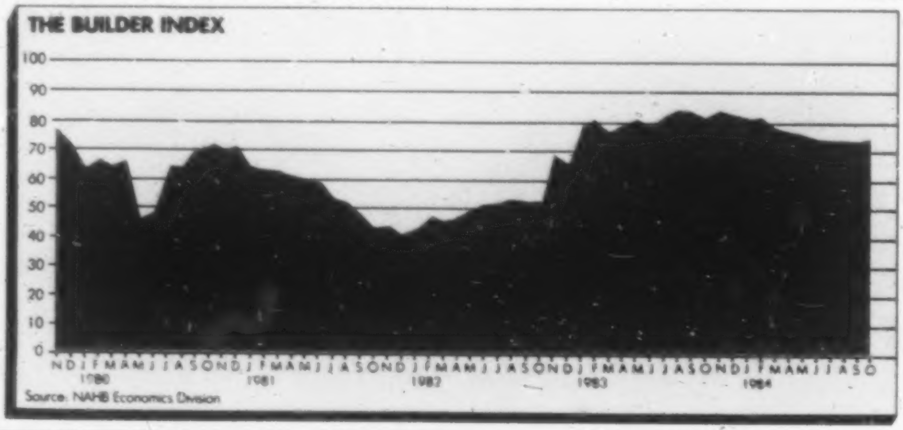
OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

For the first time in six months the BUILDER Index increased. And it increased sharply to 74.24, indicating a big improvement in the six-month outlook for starts.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Tapering Off

Michael Sumichrast
NAHB chief economist, Washington, D.C.

When it comes to housing starts, this year started with a bang. But it looks now as if it will end much more quietly. During the first quarter—January to March—the rate of starts averaged almost 2 million units. In the second quarter it averaged 1.9 million units. But in the third quarter starts fell to an average annual rate of 1.62 million, a 15 percent drop.

Even with that drop starts for the first nine months still are 5 percent above the same period in 1983. But a cumulative month-to-month comparison shows a continual decline in the rate of increase, which is another way of saying the housing boom has quieted considerably.

Last year housing starts—private and public—hit 1,712,500 units, a 60 percent increase over the 1 million starts in 1982. Assuming our forecast of declining activity holds true, 1984 will end up with about 1.72 million starts, not a bad year at all.

What these overall numbers do not and obviously could not show is the relative unevenness of the improvement from last year. In other words, some states are big winners, while others are big losers.

The greatest surprise may be that 92 percent of the total increase occurred in only three states: California, Arizona and Florida. More specifically, a comparison of housing starts during the first eight months of this year and last shows 85,900 additional starts this year. Of those 48,455 (or 56 percent) were in California, 15,249 (or 18 percent) were in Arizona and 15,023 (or 18 percent) were in Florida.

CUMULATIVE MONTHLY DIFFERENCE IN STARTS: 1983–84

	Units	Percent
First month	17,800	20%
2 months	51,500	28
3 months	105,900	17
4 months	97,200	20
5 months	97,000	15
6 months	107,800	13
7 months	108,300	11
8 months	77,800	7
9 months	70,600	5
10 months*	55,800	4
11 months*	31,500	2
12 months*	15,700	1

e: Estimate by NAHB Economics Division

As for the big losers, most of these are states where weak oil prices have hurt the economy. They include Texas, Oklahoma and Alaska. Other losers were Colorado, Nevada, Maryland, Montana, Louisiana, North Dakota and Wyoming.

Starts in Texas, for example, were down 44,224 units during the first eight months of this year; Oklahoma was down 10,327 units; Alaska 4,494 units; Colorado 2,841; and starts in Nevada were down 2,665 units.

In the states where housing improved so did employment. In California the 48,455-unit increase in starts was matched by an increase of 432,500 jobs. And in Florida, where starts jumped 15,249 units, there were 231,600 new jobs.

In addition to California, Arizona and Florida, South Carolina and New York make up the top five states in housing starts increases. South Carolina added about 70,000 new jobs, and New York 200,000.

Employment in Texas also increased—167,500 new jobs from a year ago—but the oil glut and overbuilding

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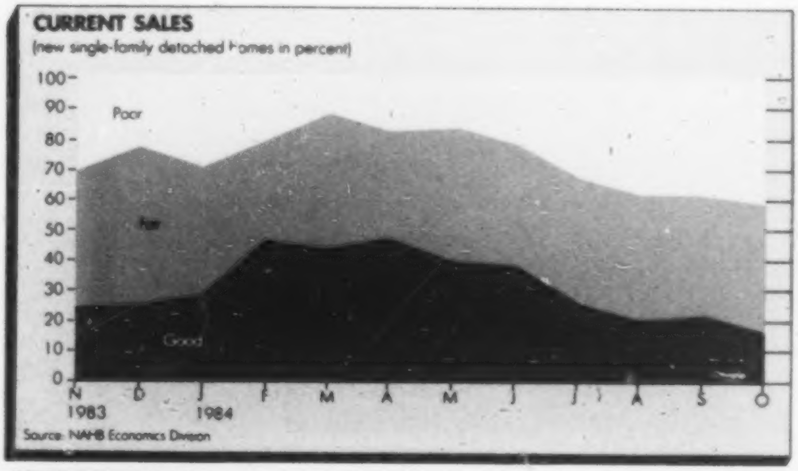
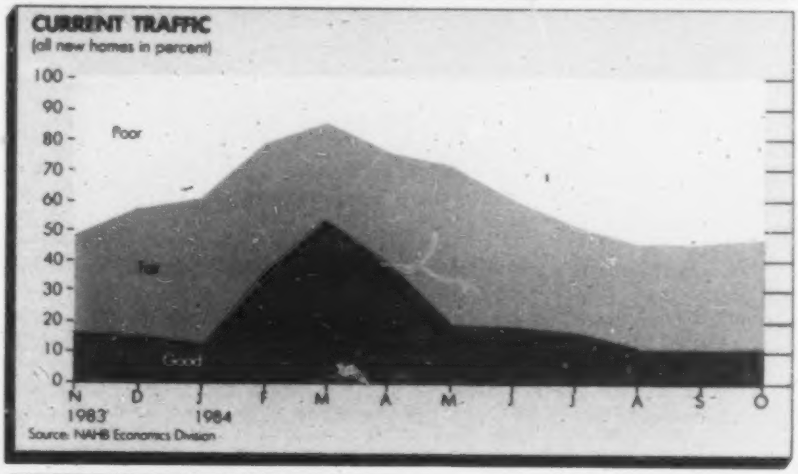
OUTLOOK/BUILDER POLL



CURRENT SALES

(new single-family detached homes in percent)

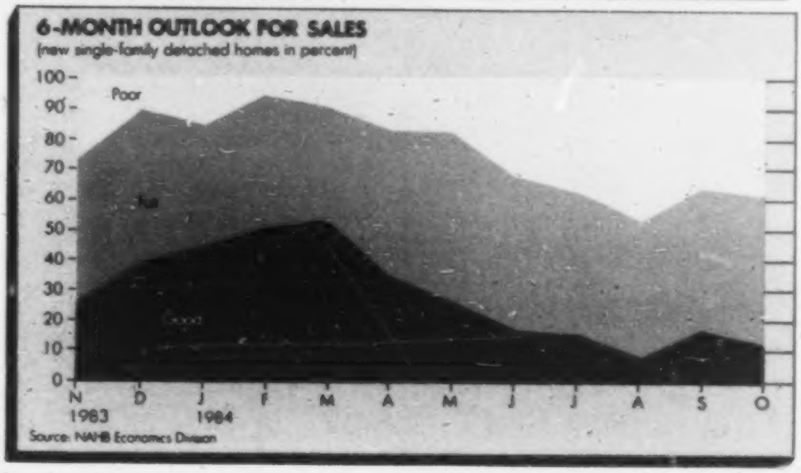
Source: NAHB Economics Division



CURRENT TRAFFIC

(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

PESSIMISM REIGNS

The slowdown in new home sales and the deterioration of builders' expectations that began in April and continued through the summer resumed again in October after last month's brief respite.

According to the most recent BUILDER poll both current sales and sales expectations for the next six months declined in October. And in spite of fairly steady recent declines in mortgage interest rates, the builders surveyed for the most part blamed high interest rates for sluggish sales and their own pessimism.

A Texas builder said, "Buyers are pensive. High rates make them worry, and ARMs scare them." And an Idaho builder said, "The problem is financing. The demand is there, but buyers just can't qualify."

While traffic actually is marginally higher (middle chart), current sales dropped to the lowest level in 19 months. Only 17 percent of those surveyed said sales were good, and 41 percent said sales were poor (top chart).

At the same time builders' expectations (bottom chart) declined to the lowest level in two years. Only 12 percent expect sales to be good for the next six months, down from a peak of 53 percent in March.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

DELINQUENCIES DOWN

Mortgage delinquencies declined slightly from 5.48% in the first quarter of this year to 5.46% in the second quarter, according to the Mortgage Bankers Association. However, the proportion of home mortgages entering foreclosure rose during the same period to 0.21% from 0.19%. Delinquency rates (mortgage payments 30 days or more past due) for the second quarter were 3.66% for conventional loans, 6.99% for FHA loans and 6.12% for VA mortgages.

SOUTHERN ACCENT

New home sales jumped in September primarily due to a burst of activity in the South, where the combination of high demand and lower interest rates pushed up single-family sales by 52% to an annual rate of 386,000, the Census Bureau reports. September sales increased 3% in the West, but declined 14% in the Midwest and 5% in the Northeast. The inventory of new single-family homes at the end of September stood at a 6.5-month supply at the September sales pace.

REPEAT PERFORMANCE

It was a different story for sales of existing single-family homes. They declined 1% to an annual rate of 2.67 million, reports the National Association of Realtors. It was the fifth straight month that resales dipped, however the rate of decline has slowed since July. September resales dropped most in the West (11.5%) and dropped 4% in the Northeast; resales rose 6% in the South and 1.4% in the Midwest. At the end of September, 2.5 million existing homes were for sale. That's an 11.3-month supply at the September sales rate. Resale prices also dipped in September by $1,100, or 1.5%, to a median price of $72,600. But that price was nearly 4% higher than a year earlier.

ENERGY EXTRA

Good news for builders of energy-efficient homes. The Federal National Mortgage Association (Fannie Mae) has clarified its guidelines for buying loans on energy-efficient houses, and it looks as if Congress will extend the energy tax credit due to expire at the end of 1985, though possibly with some changes. Fannie Mae's revised guidelines allow lenders to increase by 2 percentage points the proportion of a home buyer's income that can go to housing expenses if the home is energy efficient. (The current typical limit is 28%.) That helps more buyers qualify for mortgages. Homes qualify as energy efficient if they are built according to NAHB's energy guidelines or are judged energy efficient by an appraiser. As for the energy tax credit, the Senate may try to curb some benefits in the name of deficit reduction but the credit probably will be extended past 1985, according to a Senate Finance Committee spokesperson.

TYING A RECORD

The value of all construction contracts in 1985 will equal this year's expected record of $211 billion, predicts George Christie, chief economist of McGraw-Hill Information Systems. "As interest rates retreat during 1985, the next several quarters are likely to be a replay of 1984—but in reverse, with housing picking up strength in the second half of the year," he said. (Other economists predict a different pattern for interest rates. See the economic forecast story on page 36.) Christie also expects industrial construction to grow by 16% next year while office construction declines 17%.

CONDO CRAZE

Multifamily housing is on the way up. Its share of total housing starts will rise from 35% in 1983 to around 43% in 1995, predicts Chemical Bank economist Herve Kevenides. But most of that increase will be in condos and co-ops, not rental housing. During the next decade, single-family starts will average 1 million a year, rental starts 400,000 and condo and co-op units 365,000, Kevenides says. At the same time, mobile homes will average about 300,000 new units a year. The level of rental construction will average only 400,000 units a year—30% less than was built during the 1970s—largely because the number of people under age 35 will decline sharply.

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brought housing starts down.

In terms of percentage of employment growth, these were the top 10 states: Arizona, up 6.3 percent; Tennessee, up 6.2 percent; Florida, up 6 percent; Minnesota, 6 percent; Georgia, 5.9 percent; Utah, 5.7 percent; South Carolina, 5.3 percent; California, 4.4 percent; New Mexico, 4.2 percent; and Arkansas, 4 percent.

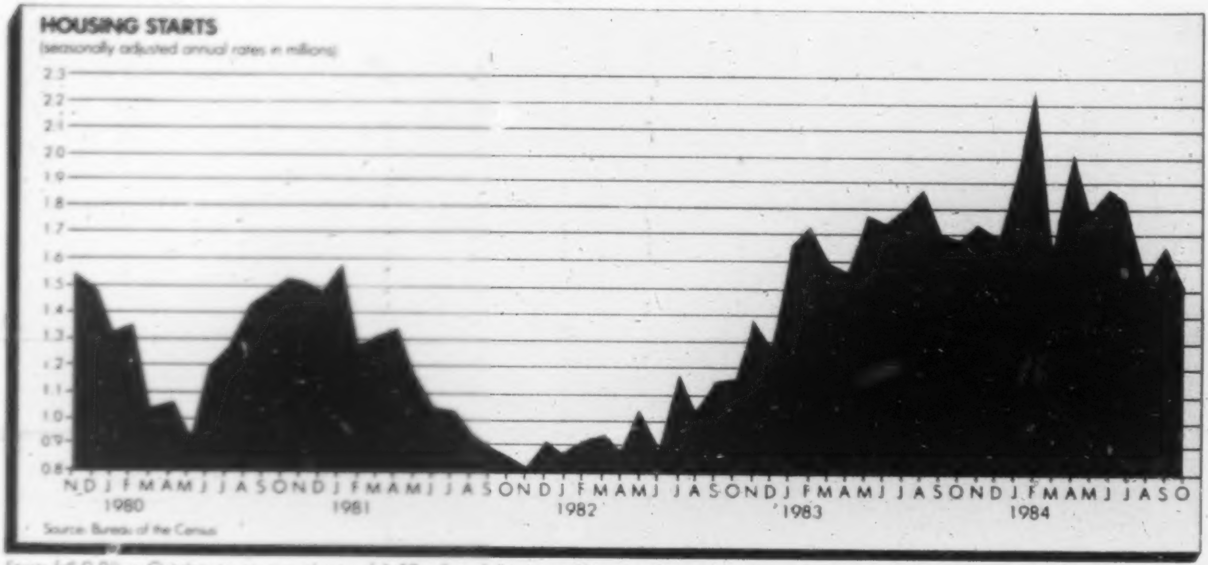
The bottom 10, those with the smallest percentage increase in employment, were Montana, up 1.3 percent; Iowa, up 1.3 percent; Oklahoma, 1.1 percent; West Virginia, 1 percent; Mississippi, 0.8 percent; Delaware, 0.6 percent; District of Columbia, 0.6 percent; Hawaii, 0.5 percent; and North Dakota, 0.1 percent.

Of course the employment picture isn't the only one to look at in assessing housing. Interest rates remain the key, and we expect rates to continue to soften through the year, mainly because of moderation in the rate of economic growth and the low level of inflation. As a matter of fact, disinflation is a possibility, given the softness of worldwide commodity prices.

By the end of the year the federal funds rate could be down to 9 to 10 percent, the prime could decline to 11.5 to 12 percent and the long-term government rate could drop below 12 percent.

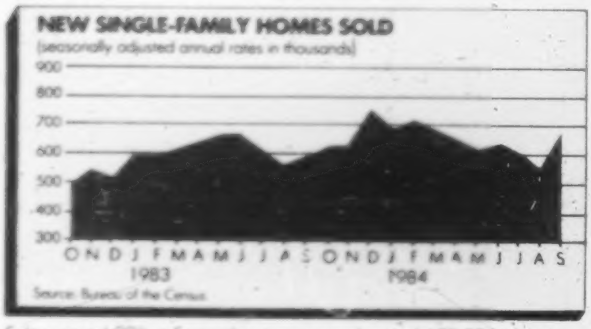
A year from now, however, the prime could be back to 14 percent or a little higher. For that reason expect that 1985 will be a year marked by a gradual decline in sales and starts. How much? A drop in starts of 15 to 20 percent seems like a reasonable estimate at this time.

OUTLOOK/STATISTICS


HOUSING STARTS
(seasonally adjusted annual rates in millions)

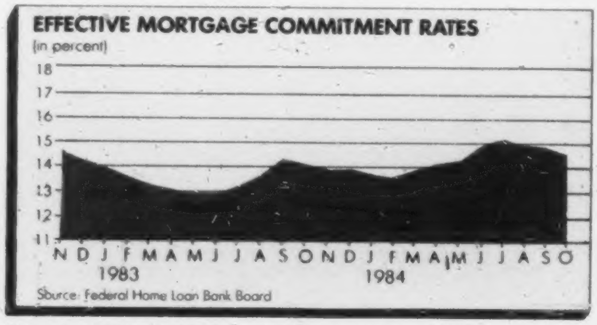
Source: Bureau of the Census

Starts fell 9.8% in October to an annual rate of 1.52 million, following a 9% rise in September. Starts dropped most—14.7%—for buildings with five or more units. October starts were down 9.4% from a year earlier.


NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

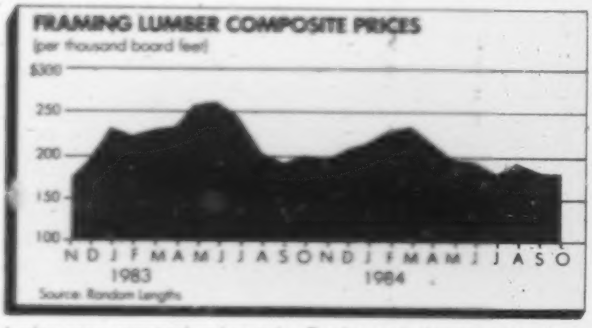
Source: Bureau of the Census

Sales jumped 22% in September to an annual rate of 679,000 after the August rate was revised downward. Almost all of the increase was in the South. The September rate was nearly 14% higher than a year earlier.


EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

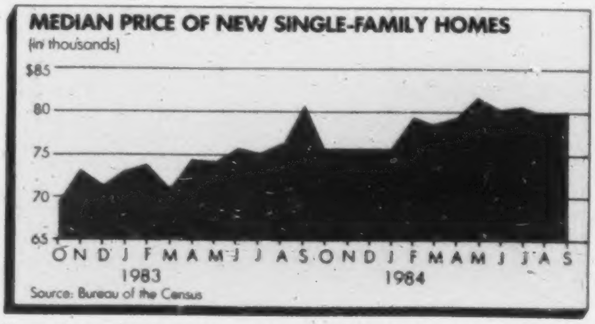
Source: Federal Home Loan Bank Board

Commitment rates for long-term, fixed-rate mortgages fell 18 basis points in October to 14.72%. A year earlier the rate was 14.08%. But uncapped adjustable rates rose 4 basis points to 13.20%.


FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

Lumber prices remained unchanged in October at the bargain price of $180 per thousand board feet. That was 10% lower than the price a year earlier.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median price of new houses rose to $80,000 in September, up $300 from the downwardly revised August price. The September price was 1% lower than a year earlier.

FINANCE

DESPITE RECOVERY S&Ls ARE IN TROUBLE

Although 1984 has been a recovery year for the thrift industry, it still isn't home free.

Thrifts received a jolting reminder of this recently when the biggest among them, American Savings of California, nearly bit the dust.

The giant S&L, still on rocky ground, suffered a run on deposits after reporting a big second quarter loss. Its doors reportedly were propped open by a $2 billion loan from the Federal Home Loan Bank of San Francisco.

But American Savings isn't the only thrift still in trouble.

Although the proportion of FSLIC-insured savings institutions operating in the red has plunged from a phenomenal high of 85 percent in late 1981, nearly a quarter of the industry still isn't making a profit. And those are the survivors.

A total of 142 FSLIC-insured institutions failed from 1980 through this October. Failures dropped from a high of 48 in 1982, the bottom of the recession, to 20 in the first 10 months of this year. By comparison only three savings institutions failed in 1979.

Most failures have been FSLIC-assisted mergers rather than outright closings, but many more troubled institutions have been merged without assistance. The total number of FSLIC-insured institutions fell 24 percent from 4,000 in 1980 to about 3,000 last year.

While most institutions were zapped by high interest that kept loan demand down and rates on deposits up, American Savings, a subsidiary of Financial Corp. of America, hit the skids, analysts say, because it grew too fast, going after allegedly risky loan business that scared federal regulators.

Regulators still are scared but not just about American Savings. The savings industry seems to have two large and quite different problems.

On one hand, most institutions still are saddled with a large number of below-market fixed-rate mortgages. The second, more recent problem is exceptional—excessive, in the eyes of regulators—growth by many big institutions such as American Savings.

During the last two years, thrifts have made substantial progress toward mitigating the first problem by aggressively and successfully marketing adjustable rate mortgages (ARMs). ARMs accounted for 64 percent of all mortgage originations in October. Still, 60 percent of the portfolio loans of thrifts were fixed-rate at the end of the first half of the year, and roughly half of those fixed-rate loans carry a below-market interest rate.

The continuing mismatch between rates and maturities of assets (loans) and liabilities (deposits) has led to a squeezed—though improved—spread between thrifts' cost of funds and their mortgage yields.

According to the Federal Home Loan Bank Board, which regulates federally chartered savings institutions, the spread was 1.85 percent for the second quarter of this year. That's up from 1.63 percent in the first quarter and far better than the negative spreads of 1981-82, but thrifts say they need a 2 percent spread to be comfortable.

Profits, too, are up. But, again, thrifts say they aren't making enough. Net income after taxes grew from a 0.16 percent annualized rate of return on assets in the first quarter of 1984 to 0.31 percent in the second quarter.

The combined rate of return for the first half of 1984 was slightly higher than that of the second half of 1983 but lower than the overall rate for last year. Back in 1981 and 1982 the industry lost money.

In short, the thrift industry has revived but needs more time to recover fully. Lower, stable interest rates are the main thing that can provide that time.

"We still need time to restructure . . . to work off our immense portfolios of old, fixed-rate loans," said Paul Prior, 1984 chairman of the U.S. League of Savings Institutions, in a speech to the league's annual convention in late October.

"One year ago we were looking forward to a 1984 that would see us make great strides on the road back to profitability. But things didn't turn out that way" because of rising interest rates. Prior called recent rate declines "heartening" but possibly "short-lived." The only way to bring interest rates down for good, he said, is to cut the federal budget deficit.

The savings industry is in its best shape in nearly five years, according to Eric Hemel, chief economist of the Federal Home Loan Bank Board, who credited the industry with doing "an incredible job" of reducing its interest rate risk through the use of ARMs.

But Hemel said the industry faces a new danger from excessive growth. Total thrift industry assets grew at an annual rate of 21 percent during the first half of 1984 compared with an 8 percent growth rate for commercial banks. Thrift assets totaled $938 billion in September—a 35 percent jump since 1982—and Hemel expects assets to hit $1 trillion early next year.

So, what's wrong with growth? The problem for thrifts is that earnings are lagging far behind growth, and some of the new lending strategies are considered risky, especially by the Bank Board.

All this is "very scary" to the Bank Board, Hemel said, because the regulators haven't been able to keep up with those being regulated, and it is worried that thrift failures could increase and strain the FSLIC insurance fund.

MORTGAGE YIELD AND COST OF FUNDS FOR FSLIC-INSURED SAVINGS INSTITUTIONS

Year	Mortgage yield	Cost of funds	Spread
1984 (Jan.-June)	11.51%	9.77%	1.74%
1983	11.17	9.83	1.34
1982	10.68	11.38	–0.70
1981	9.91	10.92	–1.01
1980	9.34	8.94	0.40
1979	8.86	7.47	1.39

Source: Federal Home Loan Bank Board

(The $6 billion in the FSLIC fund isn't much to insure a $1 trillion industry, but the fund did survive the 1981-82 recession when much of the industry was close to collapse.)

Why are many thrifts growing so fast? One big reason is the new powers Congress gave federally chartered thrifts in the 1982 Depository Institutions Act to keep them alive.

The legislation allowed thrifts to compete with money market funds, which had raided their deposits, by offering a new market rate account. That account attracted huge, though expensive and volatile, deposits that thrifts (and banks) had to invest somewhere.

Fortunately—at least for thrifts—the legislation also gave them more places to put their deposits. For the first time they could make commercial loans and tangible personal property loans, such as for mobile homes. Thrifts also could make more nonresidential real estate loans and more consumer loans.

Home builders were worried that those new lending powers would greatly reduce thrifts' support for housing. But many institutions have been slow to use the powers. They've been too busy switching to ARMs.

Now that ARMs are well planted, thrifts are expected to make more use of their expanded lending powers to diversify their loan portfolios and shield themselves from the ups and downs of the housing market. The big ones already have, and that's a primary reason for the industry's rapid growth.

"Congress gave us new powers to help us diversify, and we've started to use them," Prior said. But he added that ARMs, "if the politicians leave them alone, will allow us to remain primarily housing lenders."

Prior acknowledged that "deregulation has brought more risk-taking," but he maintained that only a small number of institutions are going out on a limb.

However, Hemel noted that "just a few risk-taking S&Ls can force conservative institutions to take more risks in order to compete. That's the deregulation world we live in."

Bank Board chairman Edwin Gray told the league convention that savings institutions need diversification options, but that housing must remain their primary lending function.

"Efforts which have the effect of subordinating the mortgage lending function of savings institutions to other activities all are in direct conflict with the legal and philosophical underpinnings of the Federal Home Loan Bank System," Gray said bluntly.

James Christian, chief economist for the league, said excessive growth is a problem for some institutions and that "one overly aggressive lender can mess up a whole market." But he doesn't think the situation is as serious as Gray indicated.

Part of the problem, according to Christian, is that the regulators haven't changed as fast as the thrift industry has, "so it's hard for the regulators to judge the soundness of the new loans."

Nevertheless, both Gray and Treasury Secretary Donald Regan favor charging higher FSLIC insurance premiums to thrifts engaged in risky lending. And Gray believes that state-chartered and state-regulated thrifts, now insured by the FSLIC, should be insured by state insurance funds.

Carol Anderson, news editor

NET INCOME AFTER TAXES FOR FSLIC-INSURED SAVINGS INSTITUTIONS

Year	Return on assets
1984 (Jan.-June)[1]	0.24%
1983	0.27
1982	−0.64
1981	−0.73
1980	0.13
1979	0.67

[1] Annualized rate of return

Source: Federal Home Loan Bank Board

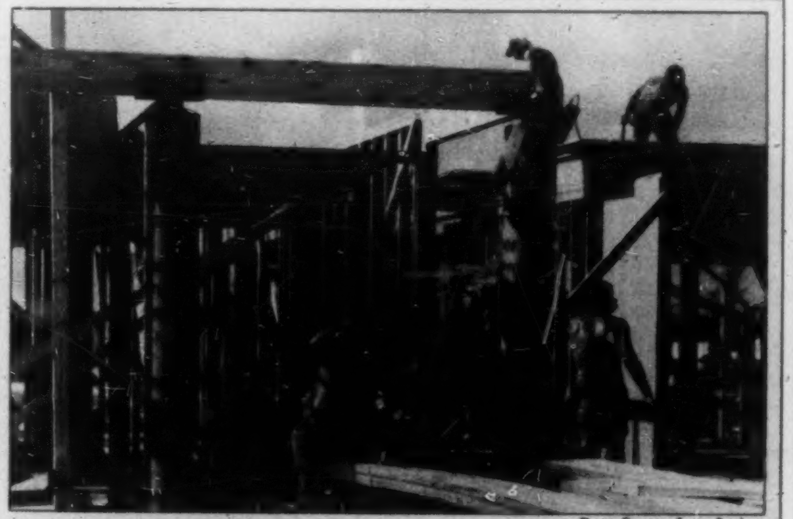


Photo: Courtesy Senco Products

DESIGN

NEW AMERICAN HOME TO BE UNVEILED IN HOUSTON

There's a smorgasbord of design ideas at the second annual New American Home to be unveiled at the 41st Annual Convention and Exposition of the National Association of Home Builders in Houston. Designed by Fisher Friedman Associates, the home is targeted to the move-up market. The 2,200-square-foot house mixes modern amenities and materials with the best ideas from the past, including energy-efficient overhangs and screened porches. A joint venture of BUILDER, *Good Housekeeping* and the National Council of the Housing Industry, the house was built by Gemcraft, a Houston home builder. The New American Home '85 will be open daily during the convention January 26 to 29, 1985. It is located at the Lakes of Fondren Southwest, a custom home community 15 minutes from the Astrodomain complex.

ECONOMY

ECONOMISTS FORECAST A GOOD YEAR AHEAD

Next year should be a pretty good year for housing even though production is expected to decline and interest rates to increase.

At NAHB's semiannual Residential Construction Forecast Conference held in late October, NAHB predicted starts would fall 13.6 percent in 1985 to 1.5 million, down from an estimated 1.74 million starts this year.

"That's a reasonably good year considering we expect higher interest rates," said Michael Sumichrast, NAHB senior staff vice president and chief economist. "We'll muddle through in 1985. Builders will have difficulty selling what they build, but there won't be a recession."

Other forecasters at the conference agreed. Leonard Santow, a partner in the New York City investment consulting firm Griggs & Santow, Inc., and Lawrence Chimerine, chairman and chief economist of Chase Econometric Associates, an economic forecasting firm based near Philadelphia, predicted starts in the range of 1.5 million to 1.6 million next year.

But all of them expect 1986 to be worse. "We probably won't get through 1986 without a recession" unless substantial progress is made on reducing the federal budget deficit, said Santow, who predicted 1.1 million to 1.4 million starts in 1986. But none of the forecasters expected much progress on the deficit.

Back to 1985, NAHB predicted that multifamily starts will fall the most—16.6 percent to 584,000 units, while single-family starts are expected to decline 11.5 percent to 923,000. Almost all of the multifamily drop will be in buildings with five or more units.

Regionally, NAHB predicts that the North Central and West will be hit hardest next year. Starts in the North Central are expected to plunge 24 percent, followed by drops of 22 percent in the West and 10 percent in the South. Only the Northeast is expected to experience a modest (3.2 percent) increase in starts.

As for interest rates, most of the forecasters were reluctant to predict specific numbers, but all saw rates rising early next year. Santow predicted that rates on fixed-rate mortgages would fall to a low of 12.5 percent late this year, stay there for the first few months of 1985, then start rising.

According to NAHB's forecast, the prime rate will fall to a low of 12 percent late this year, then climb more than 2 percentage points from 12.5 percent in the first quarter of 1985 to 14.8 percent in the fourth quarter of next year.

HOUSING STARTS
(in thousands)

Markets	1984 estimate	1985 forecast	Percent change
U.S. total	1,743	1,507	−13.6
Single-family	1,043	923	−11.5
Multifamily	700	584	−16.6
Northeast	191	197	3.2
Single-family	137	129	− 6.3
Multifamily	54	68	27.6
North Central	244	185	−24.2
Single-family	166	126	−24.1
Multifamily	78	59	−24.6
South	879	791	−10.0
Single-family	513	466	− 9.1
Multifamily	366	325	−11.4
West	430	334	−22.2
Single-family	228	202	−11.1
Multifamily	202	132	−34.7
Mobile homes	334	313	− 6.4

Source: NAHB Forecasting Service

Housing activity started to slow down this year and will continue to decline next year because much of the pent-up demand, especially by first-time buyers, was satisfied, Chimerine explained. In addition, he said the existing home market has not rebounded because high mortgage rates have discouraged owners from trading up—and that limits the new home market. What's more, high rates have started to affect multifamily starts.

"The slowdown this summer was more severe than expected," Chimerine said, "but it wasn't the start of a new recession."

Santow blamed rate rises earlier this year on the financial markets, which he said overreacted to actions taken or expected to be taken by the Federal Reserve Board. In fact, Santow said, the Fed made few major changes in monetary policy.

By the same token, Santow attributed the modest decline in interest rates since late summer to the markets correcting previous overreactions. He stressed that the declines are temporary, not the beginning of a downward trend. Nevertheless, the rate declines "bought housing another year."

Most of the news at the conference was mixed. And that was the story with inflation too. All the forecasters predicted that the inflation rate would accelerate from the current 3 to 4 percent rate up to 5 to 6 percent by next fall. But nobody expected an inflation explosion.

Much of the conference discussion centered on the federal deficit and its looming impact on the economy and interest rates. Although the deficit declined about 10 percent in fiscal 1984 to about $175 billion, Santow expects it to remain about the same next year, then shoot up to around $250 billion "in the next recession."

That 10 percent decline in the deficit this year "was relatively small given the strength of the recovery in 1983 and the first half of 1984," Chimerine said. "Growth in tax receipts is lagging behind economic growth—contrary to the theory of supply-side economics."

Both Chimerine and Santow believe taxes must rise in order to dent the deficit. "Believing that we can solve the deficit problem only by reducing spending is a pipe dream," Santow declared. Both predicted that next year Congress will move to slap a minimum tax on corporations which now "pay very little in taxes."

Carol Anderson

CONTINUED FROM PAGE 40

rado Springs, for $60 a square foot, the home is dominated by sunspaces—one on each level—which constitute 35 percent of the floor space. The sunspaces contain the airlock entry, stairway, halls, dining and sitting areas on the upper level, and whirlpool tub and recreation room on the lower level. All interior spaces open onto a sunspace.

Air heated in the sunspace warms interior spaces by natural convection and rises to the peak of the vaulted second-floor ceiling. A fan forces the hot air down a 30-foot duct next to the fireplace into a 3-foot-high crawl space. The warm air is stored there and returned to the lower sunspace.

To prevent heat loss through the sunspaces on winter nights and cloudy days, interior spaces can be closed off with glass doors. Insulating drapes protect north-facing windows.

In summer, Cowlishaw says overhangs and a fan are enough to prevent overheating in the sunspaces. But he plans to add heat-blocking screens to reduce some overheating through west windows.

The passive solar system isn't the only energy feature. The house is heavily insulated: R-36 2 × 6 exterior walls; R-44 ceilings; and R-4 and R-7 windows. In addition, three sides of the house are earth-sheltered.

The house is so tight that Cowlishaw said tests have measured the air change rate at between 0.4 and 0.2 changes per hour. Asked about any air quality problems at that low rate, he said an air-to-air heat exchanger is necessary at rates below 0.2, and "you should think about having one between 0.5 and 0.2."

In addition to a passive solar heating system, the house has a passive solar water-heating system which provides 70 percent of hot-water needs. Water contained in four tanks located in the clerestory is preheated by the sun and piped to hot-water heaters.

The solar hot-water system cost about $2,000, Cowlishaw said, and the other energy features totaled approximately $8,000.

Carol Anderson

ECONOMY

GYPSUM PRICES WILL KEEP ON RISING

Except for gypsum board, prices of building materials didn't go up much this year. Prices probably will increase a bit faster next year, but they shouldn't take off, predicted Barbara Alexander, who analyzes stocks of building companies and building materials producers for Salomon Brothers.

Speaking to NAHB's semiannual Residential Construction Forecast Conference in late October (see related story), Alexander said gypsum board prices "are likely to increase next year but not as much as this year," assuming that NAHB's forecast of 1.5 million housing starts in 1985 is correct.

PRODUCER PRICE INDEX

Product	Percent change from Sept. 1983 to Sept. 1984
All commodities	1.4%
All construction materials	2.5
Prepared paint	4.9
Softwood lumber	−6.0
Douglas fir	−9.5
Southern pine	0
Other softwood	−6.6
General millwork	−0.5
Prefabricated structural members	2.0
Softwood plywood	0.7
Insulation board	2.3
Steel mill products	2.7
Mill shapes, nonferrous	0.8
Copper/brass mill shapes	−0.9
Hardware[1]	1.2
Builders' hardware	3.9
Plumbing fixtures/brass fittings	2.3
Vitreous china fixtures	5.1
Brass fittings	0.5
Heating equipment	4.4
Water heaters, domestic	−0.9
Fabricated structural steel buildings	2.4
Bright nails	0.3
Major appliances	2.4
Flat glass	−5.1
Portland cement	2.2
Concrete block and brick	4.1
Ready-mix concrete	2.8
Building brick	3.7
Clay tile	0.6
Prepared asphalt roofing	6.1
Gypsum products	19.6
Paving mixtures and block	7.1

[1] Not elsewhere classified

Source: Department of Labor, Bureau of Labor Statistics

According to the Producer Price Index, the price of gypsum products jumped nearly 20 percent between September 1983 and September 1984, the latest month for which statistics were available. Gypsum price increases (year-to-year) were much greater—as high as 30 percent—earlier in 1984.

By comparison, prices for all construction materials advanced only 2.5 percent from September to September. But even that small rise was greater than the 1.4 percent increase in the price of all commodities.

Although builders are paying much more for gypsum board—and at times this year they had a hard time getting it—lumber is a bargain.

Softwood lumber prices declined steadily from March to September 1984 and were 6 percent lower in September than a year earlier. Douglas fir prices fell even more (9.5 percent) from September to September, while the price of southern pine didn't change.

Why did gypsum jump and lumber fall? Competition had a lot to do with it, Alexander said. U.S. lumber producers face stiff competition from imports, especially Canadian, but gypsum doesn't.

"There is no good substitute product for gypsum board, and it's not an international commodity," Alexander said. In addition, clever marketing has expanded the market for gypsum, most recently into commercial construction, she added. As a result, producers could jump prices.

Lumber manufacturers aren't so lucky. In addition to imports made cheap by the strong American dollar, increased use of composite board and new production capacity, especially in the South, have held prices near their recession levels.

"Lumber prices will remain cyclical," Alexander said, "but it will be a long time before prices rise to the

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peak level of the last housing cycle."

Here's what Alexander had to say about some other major building materials:

- Fiberglass insulation. Prices haven't gone up as much as expected (the Producer Price Index for insulation board advanced 2.3 percent from September 1983 to September 1984). Prices will remain "relatively accommodative to builders for the foreseeable future." Why? Increased production capacity and a slowdown in the retrofit market.
- Cement. Prices probably will go up some but will remain relatively low for at least the next few years because of more efficient plants and import competition, especially from Mexico.
- Roofing materials. It will be several more years before roofing prices go up much because greater production efficiency achieved by switching from organic felt shingles to fiberglass shingles has, in effect, increased capacity.

MARKETING

AD INDEX DELIVERS MESSAGE TO INDUSTRY

Builders spend a great deal on new home advertising, an estimated $750 million a year nationwide. Now a Hollywood, Fla.-based residential marketing firm has developed an index to measure new home display advertising volume in major newspapers throughout the country.

The New Home Advertising Index, initiated in April, was developed by the Greenman Group, Inc., as an indicator of industry strength in particular markets. The firm also collects comments from real estate advertising managers on current and predicted trends in the real estate market.

The amount of new home advertising is linked directly to builder confidence in home sales. Linage is high when builders expect sales to go well, but when times are tough, builders cut back. According to Ron Kukulski, real estate manager for the Fort Lauderdale *News/Sun Sentinel*, the index can provide a comparison of new home advertising linage nationwide. Being in one of the fastest growing real estate markets in the U.S., Kukulski would have reason to worry if his monthly or yearly linage declined while most of the nation's increased. Fred DeVoe, advertising director of the *Kansas City Star*, also watches the index but for a different reason. He examines the advertisements of East Coast newspapers, which mostly come from large builders. He feels large builders start trends which later will affect small builder advertisers in Kansas City.

Comments from real estate advertising managers included in the index also can provide valuable information. The comments explain regional activity and enable builders to spot trends which might influence their markets.

Andrew Greenman, president of the Greenman Group, says in the future he hopes to compare the number of ads with the number of homes sold.

Laura Lewis, assistant editor

ENERGY

TIGHTEST HOUSE IN TOWN ATTRACTS 115,000 PEOPLE

Ray and Bruce Baker are energy evangelists.

The father-son custom home building team, which specializes in solar and energy-efficient residences, has built what is arguably the tightest house in town for Cincinnati's 1984 Homearama, sponsored by the Home Builders Association of Greater Cincinnati.

Loaded with energy-saving features, the 3,178-square-foot house attracted 115,000 visitors during the June show. And though the $259,000 spec house hasn't sold yet, neither Baker is complaining. "Our number one concern [in Homearama] was to showcase various energy systems and to build our reputations as energy experts," says Bruce, vice president of Baker Homes. "We average seven starts a year and we have seven solid prospects from the show. All are interested in adapting at least some of the energy-conserving items we featured."

The Bakers' Homearama house has a two-story passive solar sunspace, phase change solar heat panels, superinsulation, quad-glazed windows, an all-wood foundation, radiant heat panels and foam caulking. Shutters, fans, blinds and temperature are all controlled by a $4,000 computer system, which also monitors lights and security alarms.

Photo: Courtesy American Plywood Association

The passive solar sunspace includes a sealed and insulated underfloor plenum and phase change solar heat panels; both store heat. A computer controls the hot tub's temperature.

"Everyone wants energy efficiency, but no one wants to live like his great-grandfather did, opening and closing vents and blinds all day," says Ray Baker, president of the family firm. "And the computer also saves money, eliminating the need for regulating thermostats, dampers, even alarm clocks. Because of this, and because the computer lets you fine-tune the energy-conserving systems, I estimate the real cost of the computer at only $1,200 or $1,400."

Installing the energy and the computer systems wasn't difficult, insists Ray, an energy consultant for such companies as 3M and Dow Chemical. "Builders get confused and intimidated by silly books," he says. "But you just

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about San Francisco, Boston, Los Angeles and New York, where tight controls on development have kept supply in check.

In residential construction, investors are excited about multifamily housing. "Five years ago, lenders saw multifamily [development] as a poor investment," says Bolan. "But no one's laughing now." Still multifamily overbuilding plagues such Sunbelt cities as Houston, Phoenix and San Diego, while northeastern markets such as New York and Washington, D.C., remain strong.

The general public also has seen the need for multifamily housing. Homeowners are quietly subdividing large houses into smaller units or converting basements into granny flats. This rise in "middle-class meat-and-potatoes housing," as Bolan terms it, accounts for an estimated 400,000 to 500,000 new units a year. Yet because they don't have new foundations or footings, these units don't fit the Census Bureau's definition of starts. Bolan therefore dismisses all housing start statistics as "meaningless."

Other RERC predictions include:

- The return of housing primarily for use rather than investment. Home buyers won't move for at least four or five years after purchase, and the home improvement industry will boom.
- Death of the fixed-rate mortgage by the end of the decade.
- Preservation of mortgage interest rate deductions, although a limit to the amount an individual can deduct is conceivable.
- No relief on interest rates.
- Steady but moderate increases in home prices.
- A surge in the use of broker-based, computerized mortgage systems, creating a national mortgage market.
- Renewed interest in downtown housing and in maintenance-free, recreation-oriented projects for young professionals and single parents.
- Growing demand for life-care facilities for the affluent elderly.
- Emergence of Wall Street firms, including brokerage houses, investment bankers and financial services conglomerates, as full-service real estate companies. Financial "supermarkets" will offer developers "one-stop shopping"—from initial equity to construction financing to mortgage debt.
- Slowdown in the growth and size of regional shopping centers. But neighborhood shopping centers will increase in number and size. High-priced specialty shopping centers and low-priced warehouses selling generic goods also will proliferate.
- Rapid expansion of hotel chains. Overbuilding will encourage chains to invade new markets.

SURVEY

HOME PRICES FALL

First, the bad news: Over the past year, the average price of new and existing homes across the country has dropped.

A survey of 32 major metropolitan areas by the Federal Home Loan Bank Board (FHLBB) shows the average home price for the third quarter of 1984 was $94,000, down 0.3 percent from a year earlier. Prices declined in 13 cities and increased by more than 10 percent in only three cities: Boston, Minneapolis and New York.

Now the good news: Changes in the average sales price don't necessarily reflect economic trends. In fact, the greatest downturns and upswings in the FHLBB's third quarter survey are more a function of changing local market demands than general economic health.

Columbus, Ohio, for instance, felt the most precipitous drop in prices in the FHLBB's second quarter survey (−24.5 percent) and had the second greatest decrease in the third quarter (−14.5 percent). Although the combined decrease is the largest among the areas surveyed, Donald W. Kelly, president of the Columbus Board of Realtors, says "the market's never been stronger."

According to Kelly the change, from an average third quarter price of $80,200 in 1983 to $68,600 in 1984, is due to a shift in demand toward lower priced multifamily housing. "Comparing the first six months of 1983 and 1984, our statistics show an 80 percent increase in multifamily starts and only a 30 percent increase in single-family starts," says Kelly. He added that Columbus has a diversified economy that has been relatively unaffected by the past industrial recession. "There's also been a growth in research-type business, such as American Electric and Power and ATT, that has brought a lot of job transfers and, consequently, a demand for rental housing."

Similarly, Honolulu's home prices

CONTINUED ON PAGE 54

AVERAGE SALES PRICE OF NEW AND EXISTING HOMES
(in thousands)

SMSA	Third quarter 1983	Third quarter 1984	Percent change
Boston	$ 89.3	$104.4	16.9%
Minneapolis	92.8	107.5	15.8
New York City	118.3	131.4	11.1
Miami	74.9	81.9	9.3
Dallas-Fort Worth	103.9	113.5	9.2
Honolulu	135.8	114.3	−15.8
Columbus	80.2	68.6	−14.5
Greensboro	82.9	72.3	−12.8
Chicago	102.7	91.4	−11.0
Salt Lake City	98.1	88.4	− 9.9

Source: Federal Home Loan Bank Board; compiled by the NAHB Economics Division

CONTINUED FROM PAGE 50

have dropped by 15.8 percent—the largest percentage in the nation—despite a healthy local economy. The main reason seems to be oversupply in a high-priced market (Honolulu had the highest home prices in the country during the second quarter). "We had a lot of speculative business in the late 1970s—people are unloading their properties," says Marcus Nishikawa, president of the Honolulu Board of Realtors. "We've also had a lot of foreclosures, which isn't normal in the state."

On the other hand commercial growth, pent-up demand and community resistance to new development have combined to push up prices in Boston, which experienced the largest price increase (16.9 percent) between the third quarters of 1983 and 1984. Average prices jumped from $89,300 to $104,400. "There's been no major subdivision in a year, which constricts supply and pushes up prices," says Wayne Stoddard, research director of the Greater Boston Real Estate Board. Demand has been strongest for upper-end single-family homes and condominiums, made more acute by the influx of professionals attracted by the surge of commercial development. As more people have moved to the area, community activists have sought to restrict new development, forcing some builders to specialize in renovation.

But in Minneapolis housing prices have risen for different reasons. Up 15.8 percent, from $92,800 to $107,500, between the third quarters of 1983 and 1984, prices have been sparked by soaring land costs and municipal charges, the need for high-cost energy-efficient construction and increased demand from the move-up market, according to William Gerst, assistant to the executive vice president of the Minneapolis Board of Realtors. "Activity is greatest in the lowest end and the highest," says Gerst. "The mid range is the only trouble spot. Construction is heavy in single-family; the multiple market has stabilized. And there are a lot of condo conversions coming through."

June Fletcher

GOVERNMENT

SOME HOMEOWNER TAX DEDUCTIONS MAY BE CUT

The Reagan administration is considering proposals to reduce or eliminate the mortgage interest tax deduction for second homes and the deduction for state and local property taxes.

The proposals are part of a plan being developed by the Treasury Department to simplify the tax system. Treasury's recommendations were scheduled to be sent to President Reagan by December 1, but it wasn't certain whether the recommendations would include the two housing-oriented deductions.

The second home deduction reportedly cost the government $1.2 billion in lost tax revenue last fiscal year.

Commenting on the second home proposal, Robert Bannister, NAHB's senior staff vice president for government affairs, said, "It looks like a trial balloon of sorts."

NAHB is studying the impact of the two proposals and others on the housing industry, Bannister said. Elimination of the second home deduction may not have a large impact on the national housing market, but he said it would have "a very adverse effect" on recreational and retirement markets.

"The impact would be greater in Florida, parts of New England and Tucson, for example, than in Dallas," he noted.

REGULATION

SUPREME COURT TO HEAR LANDMARK ZONING CASE

The U.S. Supreme Court is scheduled to decide the most important zoning issue currently facing the building business—whether property owners should be compensated financially when they are hurt by overly restrictive zoning and land-use regulations.

"It's the most important zoning case since 1926 when the Supreme Court decided that zoning is constitutional—assuming the Court decides the central issue," said Gus Bauman, NAHB's litigation counsel. The developer in the case, Hamilton Bank of Johnson City, Tenn., has asked Bauman to help write the bank's legal brief to the Supreme Court.

Hamilton sued the Williamson County (Tenn.) regional planning commission in 1981 after the commission retroactively applied new, lower density zoning regulations to a large subdivision near Nashville which was approved in 1973.

The developer had 258 acres left to develop of the 676-acre site when the commission decided to subject the remaining acreage to a zoning law passed in 1977. By then, the developer had spent up to $5 million on infrastructure for the entire building site and had dedicated 245 acres to the county, as required.

So the bank filed an inverse condemnation suit, charging that the commission had, in effect, "taken" the property by reducing its economic value, and seeking financial compensation.

A federal trial jury awarded the developer $350,000, and the commission was enjoined from applying the new zoning rules to the subdivision.

"The developer was able to prove that the property had been down-zoned so much that it was economically impossible to build the few houses allowed, that the effect was to stop further development," Bauman said.

The U.S. Court of Appeals affirmed the jury decision, agreeing that there had been a "taking" of property and that compensation was justified. Now the issue is before the Supreme Court, which is expected to hear oral arguments early next year and hand down a decision a few months later.

The Supreme Court has heard two similar zoning cases in the past few years, but both times it ducked the issue of compensation. However, Bauman believes that the current case has a better chance of deciding the issue.

CONTINUED ON PAGE 58

BUILDER

C4300-1

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

JANUARY 1985

VOLUME 8, NUMBER 1 ■ JANUARY 1985

BUILDER

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COLUMNS

5 About Building
18 Money
24 Washington
30 Marketing
36 St[illegible]

DEPARTMENTS

11 Outlook
238 Sketchbook
245 Shoptalk
255 NAHB Report
268 New Products
288 Product News
342 Ad Index
344 Mail

NEWS

42 Deficit clouds housing outlook for 1985
43 Proposed tax reform is bad for housing
54 Winter didn't give this developer cold feet
54 Fed's Martin says rates may fall
60 Premiums collected on canceled insurance
70 Color it excellent
72 Mobile home market is on the move
76 Weekly mortgages get first U.S. test
76 Fox & Jacobs plans merger, CEO retires
78 Metro forecast: Starts will level off in the first quarter
94 FTC cracks down on home warranty violations
96 Government costs inflate home prices
102 New marketing strategy timed just right
106 HOW rates drop again
106 Big bucks offer boosts rentals
112 ARMs cushion fall of resales
112 Do-it-yourself guide to good publicity
124 Michael Jackson twin is a thriller
124 Industry needs one energy standard
126 The sales secret? Price, price, price
134 Charlotte condos make grandstand play
134 New rules to hurt resales, Realtors fear
142 HOMAC is acquired in joint venture
152 Inner-city project takes off, finally
158 Natural patterns shape development plan
164 There's room at the inn for home builders

172—THE NEW AMERICAN HOME '85

A special project of BUILDER, *Good Housekeeping* and NCHI, The New American Home is an idea house that boldly updates traditional ideas about housing design.

(Cover: The New American Home '85, Houston. Photo: Copyright 1984 Greg Hursley)

194—ROLE REVERSAL

Pinched for profits, many lenders are becoming directly involved in real estate development. And a lot of builders don't like it.

200—HOUSING FROSTBELT STYLE

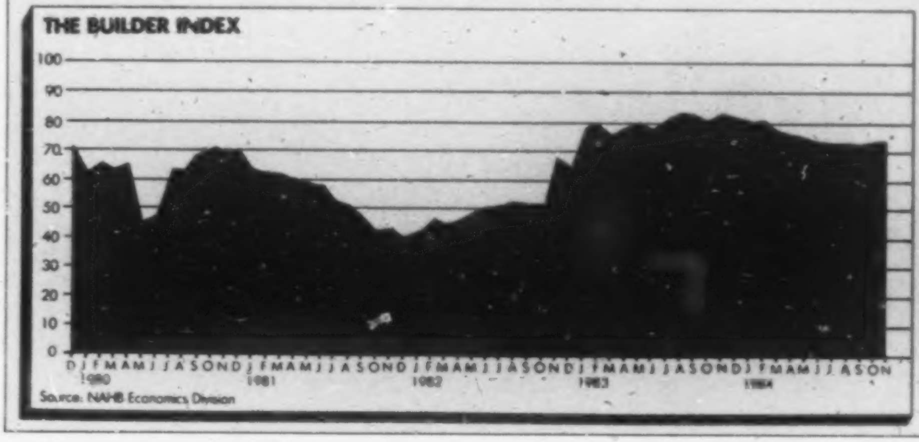
It may not be housing's hot spot, but the Frostbelt really isn't in a deep freeze. A sample of some very good housing from some not-so-bad markets.

220—RAGS TO RICHES

The stories of six builders who started with nothing and have become multimillionaire builder-businessmen and industry leaders.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



THE BUILDER INDEX

Source: NAHB Economics Division

The BUILDER Index rose slightly in November to 74.83, reflecting lower interest rates and higher building permit activity.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The BUILDER Index is updated monthly.

Good and Bad News

Michael Sumichrast
NAHB chief economist, Washington, D.C.

Builders' spirits move counter to interest rates. They always have and still do, which explains why, for the first time since last spring, industry optimism is building. Interest rates have dropped and most financial analysts, plus President Reagan and Treasury Secretary Regan, believe rates won't go back up again until at least mid-year.

That is good news. But the long-term outlook is not nearly as rosy. A year from today rates probably will be 2 to 3 percentage points higher than they are now.

What all of this means is a slightly improved housing outlook for the first half of the year, but then a sharp decline in 1986. NAHB's economics division base forecast for 1986 calls for housing starts to drop to 1.2 million units from the 1.5 million units forecast for 1985. However, a rebound will follow and by 1988 starts will reach the highest annual rate for the decade with 1.8 million units.

This long-range forecast is based on the following assumptions. Real GNP growth (nominal growth minus inflation) will drop from 5.3 percent in 1984 to 2.9 percent this year. In 1986 real growth will decline to a minus 1.5 percent, then in 1987 increase to 1 percent and move up to 4.3 percent in 1988.

The unemployment rate will remain about the same this year, but will inch upward, reaching 8.9 percent in 1987. Real disposable income increases will drop to 2.5 percent this year and another 0.5 percent in 1986, before bouncing back to 4 percent in 1988.

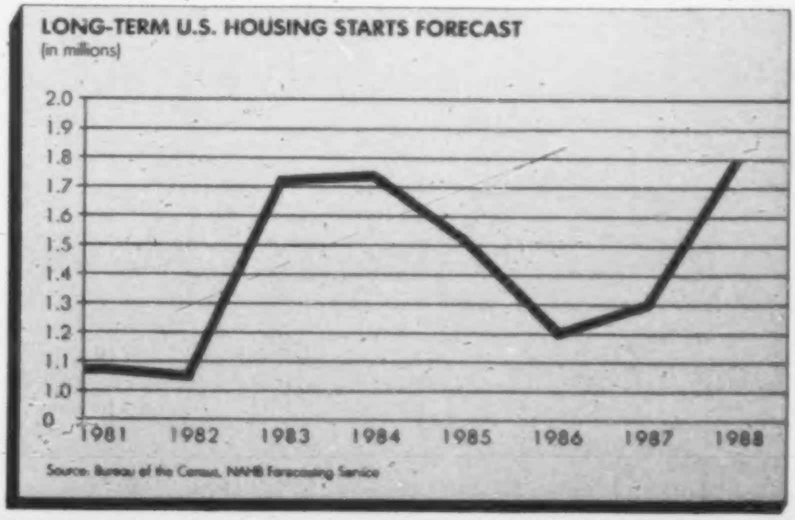
The final assumption calls for moderate inflation. Inflation should increase slightly from 3.1 percent last year to 4.3 percent this year and eventually reach 6.5 percent in 1988.

In short we expect a recession in 1986. The reason for the economic decline will be the inability of the government to do something fundamental about the deficit. Government's demand for money will start to crowd out private borrowers sometime next year. As a result interest rates will rise, and housing starts will fall.

Even if the deficit is reduced, few feel that the reduction will be sufficient to make much difference. The so-called "hard-core" budget increase this year will be about $60 billion. The increase

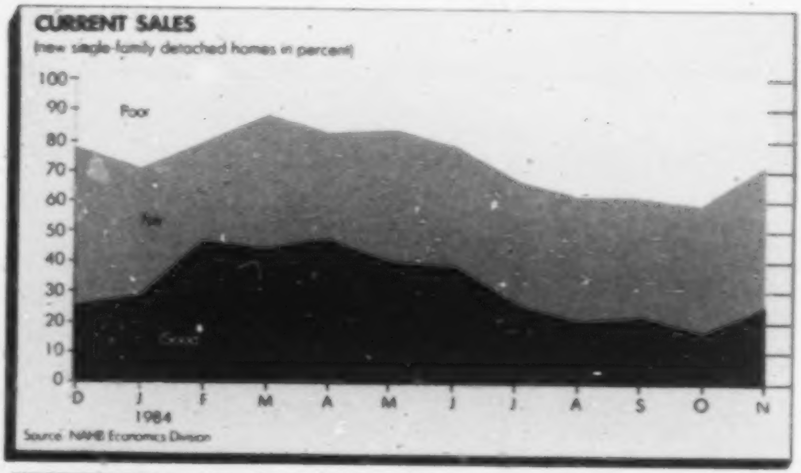
CONTINUED ON PAGE 13

LONG-TERM U.S. HOUSING STARTS FORECAST
(in millions)

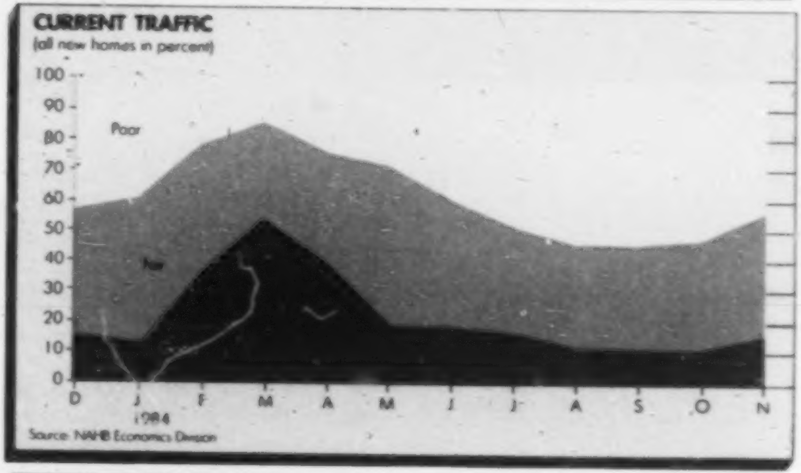


Source: Bureau of the Census, NAHB Forecasting Service

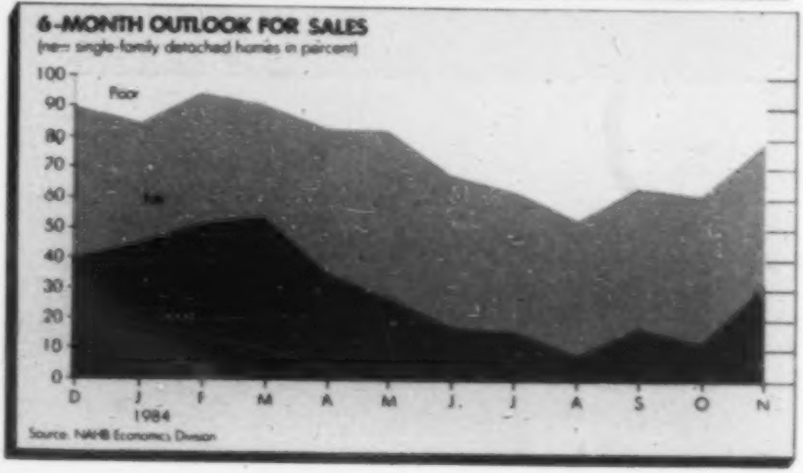
OUTLOOK/BUILDER POLL


CURRENT SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division


CURRENT TRAFFIC
(all new homes in percent)

Source: NAHB Economics Division


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division

NEW-FOUND CHEER

What a difference a month can make. No doubt because of the continued decline in mortgage interest rates, responses to the November BUILDER Poll showed evidence of a new-found optimism among builders. That reversed the dreary outlook of a month before.

In fact for the first time since last March the poll saw builders reporting improvement in all three key indicators of housing activity: traffic of prospective buyers, current single-family home sales and builders' six-month outlook.

Traffic (middle chart) showed the least improvement, but then it had declined much less than sales since last spring. As for sales (top chart), there was solid improvement. In November 73 percent of the respondents said that single-family home sales were good or fair, compared with only 59 percent in October.

The six-month outlook (bottom chart) improved even more dramatically, with the number of builders expecting good sales over the next six months almost tripling and the number expecting poor sales declining by about a half.

According to the NAHB economics division, which conducts the poll, it's too soon to either take the November results as the start of a trend or dismiss them as a fluke. Or as one builder from Wilkes-Barre, Pa., put it, "an improved economy, lower interest rates and some response to the federal deficit by the president should guarantee a continued strong housing market."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

HIGHER MAXIMUMS

Effective January 1, maximum mortgage amounts on home loans purchased by Fannie Mae and Freddie Mac will go up slightly. The new limits: $115,300 for single-family homes (up from $114,000); $147,500 for two-family homes (up from $145,800); $178,200 for three-family homes (up from $176,100); and $221,500 for four-family homes (up from $218,900). The limits are adjusted each year to reflect increases in national housing prices. "The modest increase in this year's limit reflects the fact that house prices were relatively stable over the past year," commented Ken Thygerson, president and chief executive officer of Freddie Mac.

POSITIVE PREDICTION

Although the economy continued to slow in the fourth quarter of 1984, moderate growth is predicted for 1985, according to the latest member survey by the National Association of Business Economists. The business economists expect real GNP to grow 3% in the next 12 months. That's about average for the third year of a business expansion but well below the 6.3% growth during 1983 and the 5.7% GNP growth expected in 1984.

ARMs THAT RATE

Fannie Mae has standardized the types of ARMs with interest rate caps that it will buy. Each of the three new rate-capped ARMs has a one-year adjustment period and a lifetime rate increase cap of 5%. Two of the ARMs have annual interest increase caps of 1 and 2% respectively. The third has an annual payment increase cap of 7.5%. The new ARMs are assumable, can include graduated payments over the first three years and can be converted to fixed-rate mortgages in the third, fourth or fifth year.

RESALES HOLD STEADY

After declining for five straight months, existing single-family home sales leveled off in October, the National Association of Realtors (NAR) reported. The annualized rate of resales in October was 2.67 million units, the same as in September and only 1.8% lower than resales in October 1983. The median sales price of existing single-family homes in October was $72,300, only 3.6% higher than a year earlier. NAR said the stabilized resale rate was due to modest declines in mortgage rates and predicted that real interest rates (adjusted for inflation) would continue to recede at least through the second quarter of 1986.

NOTHING SPECTACULAR

S&Ls and savings banks together were not expected to do more than break even in 1984, according to the National Council of Savings Institutions. Earnings at savings institutions were positive for the first half of 1984, but roughly half their 1983 levels. The council also reported that savings deposits at thrifts totaled roughly $900 billion by mid-1984. That was 7% higher than total savings at the end of 1983, but growth was far less than the 19% surge from 1982 to 1983 when the industry benefited from deregulated interest rates on deposits.

SYNDICATIONS SOARING

Sales of public real estate syndications topped the $1 billion mark in the third quarter of 1984 for the fourth straight three-month period, reports Stephen Roulac & Co., a real estate advisory firm. However, the company expects activity to diminish somewhat because investments in real estate syndications are becoming less tax-sheltered and because the industry is maturing.

FOREIGN EXCHANGE

Fannie Mae has started borrowing money in the Euromarket, as it was recently permitted to do, and that could mean more money for housing. It also means lower interest rates, at least for Fannie Mae, because rates currently are lower overseas than in the U.S.

FHA SAFE FOR NOW

The latest attempt by the Office of Management and Budget (OMB) to curtail federal credit programs—detailed in OMB's Circular A-70—will not affect FHA's mortgage insurance programs, according to Philip Abrams, who resigned recently as under secretary of the Department of Housing and Urban Development. In a speech at the National Association of Realtors convention in November, Abrams said FHA's home loan insurance programs "have never cost the taxpayer anything" and need not be justified. The OMB circular sets three criteria that federal credit programs should meet: They must serve a public purpose, there must be no viable private substitute and they must be actuarily sound.

CONTINUED FROM PAGE 11

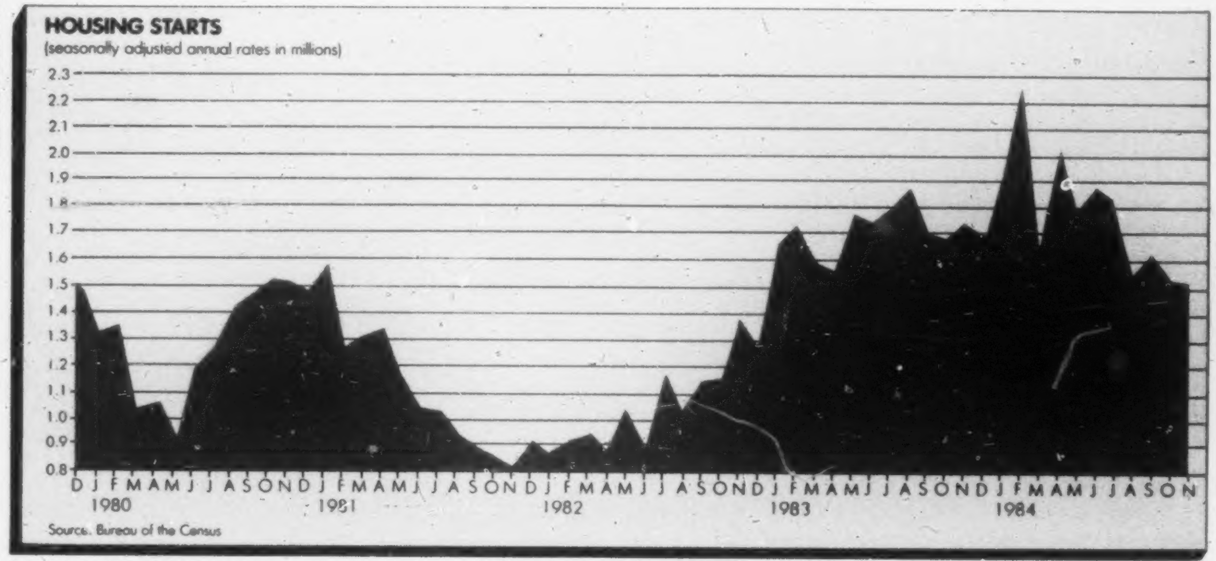
represents interest paid on the debt and higher defense spending. The budget will push $1 trillion, and receipts will reach at most $800 billion.

The accompanying graph shows NAHB's housing forecast for 1984 through 1988. The forecast calls for starts to average 1.51 million units annually, or about 10 percent higher than during the period from 1979 through 1983. Single-family starts are expected to increase 7.3 percent and multifamily starts should increase by 14 percent.

Regionally, the Northeast should increase by 29.3 percent; the North Central should decline by 1.8 percent, the South should increase by 10.3 percent and the West should increase by 7.5 percent.

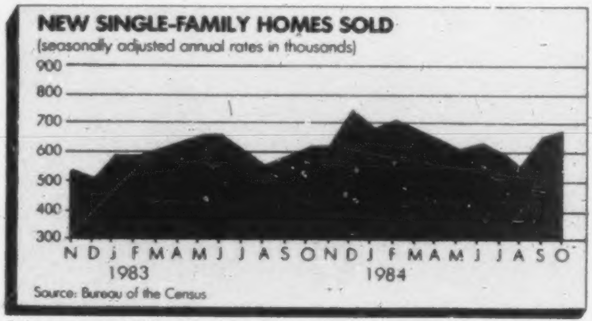
The Northeast's share of total starts should increase to 12 percent from 10.2 percent; the share for the North Central region should decline to 14.3 percent from 16 percent; the South's share should increase to 50.9 percent from 50.5 percent; and the share for the West region should decline slightly to 22.8 percent from 23.2 percent.

OUTLOOK/STATISTICS


HOUSING STARTS
(seasonally adjusted annual rates in millions)

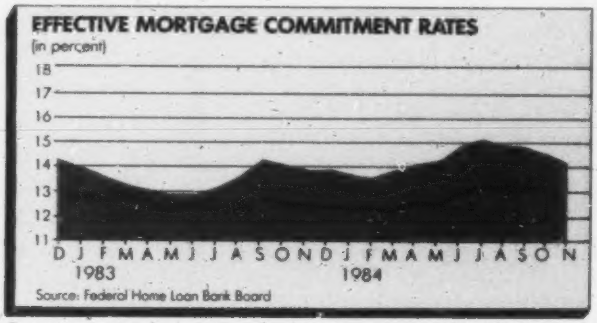
Source: Bureau of the Census

Starts slipped very slightly in November to an annual rate of 1.53 million from an upwardly revised October rate. It was the lowest starts level since December 1982. But November building permits were up, indicating higher starts ahead.


NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

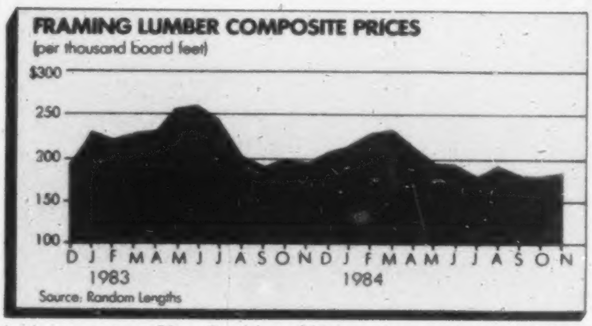
Source: Bureau of the Census

Sales increased 2% in October to an annual rate of 680,000. The October sales rate was 9% higher than a year earlier and the highest since March 1984.


EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

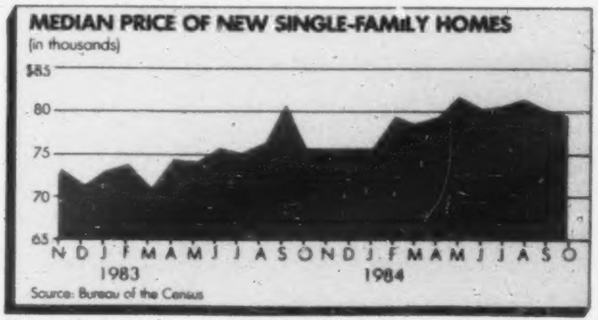
Source: Federal Home Loan Bank Board

Commitment rates for long-term, fixed-rate mortgages tumbled 54 basis points in November to 14.16%—the lowest rate in seven months. Uncapped adjustable rates fell 38 basis points to 12.69%.


FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

Lumber prices rose 2% in October to $184 per thousand board feet. But that was still 8% lower than the price a year earlier.


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median price of new homes declined by $400 in October to $79,700. The October price was $3,800, or 5%, higher than a year earlier.

ECONOMY

STARTS WILL LEVEL OFF IN THE FIRST QUARTER

Housing starts dropped during the third and fourth quarters of last year, but the decline should level off during the first quarter of this year, according to NAHB's latest Quarterly Metropolitan Housing Starts Forecast.

Dallas-Fort Worth is projected to have the highest number of starts in the first quarter of this year—16,800—even though activity is down nearly a third from the same period last year. Other top 10 cities for starts in the first quarter are, in order, Phoenix, Atlanta, Riverside-San Bernardino, Los Angeles-Long Beach, San Diego, Tampa-St. Petersburg, Houston and Washington, D.C.

Starts in most of those cities, however, will be down from the first quarter of 1984. The only ones showing an increase are Riverside/San Bernardino and San Diego.

"The biggest surprise in the forecast is the strength shown by the top 10 metro areas," commented Michael Sumichrast, NAHB's chief economist.

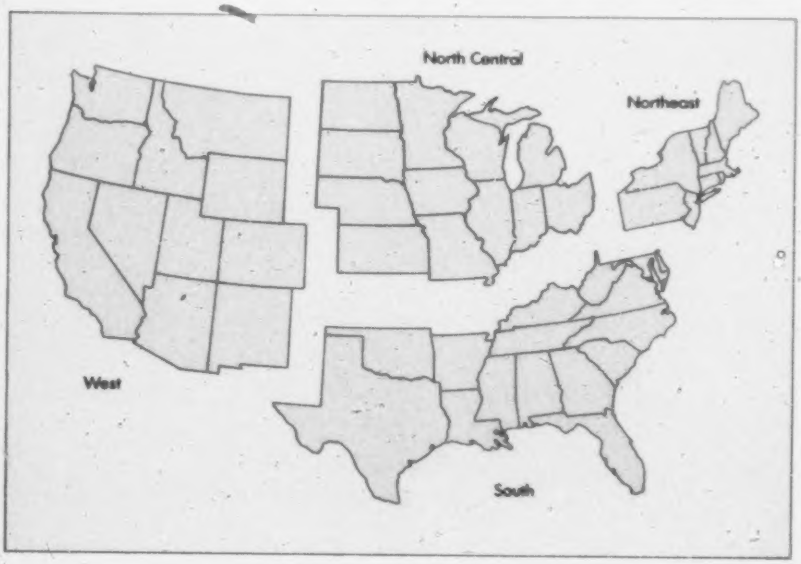
"But most cities in oil-oriented states, especially Houston, are doing very badly," he added. Starts in Houston are forecast to plunge 48 percent this quarter compared with a year earlier. However, production there is expected to be up from the fourth quarter of 1984.

The forecast, prepared by NAHB's economics division, estimates starts in 95 metropolitan areas throughout the country for the coming quarter.

QUARTERLY HOUSING STARTS FORECAST: UNITED STATES TOTAL

1984				1985	
First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
247,940	299,303	257,512	209,949	209,622	−15.5

Source: Copyright National Association of Home Builders



As shown here, the data includes the number of starts in each area, arranged by region, for each quarter during 1984 and projected starts for the first quarter of 1985. (Figures for the fourth quarter of last year also are projections.) The table also shows the projected percentage change in starts between the first quarter of last year and the first quarter of this year.

According to the forecast, starts nationwide will dip only slightly this quarter to 209,622 units compared with the fourth quarter of last year. But that is down 15.5 percent from the same quarter last year.

That's not a steep drop, according to Sumichrast. "A 15.5 percent decline is about what we expected considering the level of interest rates," he said. "In fact, housing is doing a little better than the nation as a whole."

From first quarter to first quarter, multifamily starts are forecast to fall the most, dropping 20.8 percent to 94,031 units nationwide. At the same time, single-family starts are expected to decline 10.6 percent to 115,591.

The decline from first quarter to first quarter will occur in all four regions with the biggest drops in the South (down 18 percent) and the West (down 15 percent).

But the picture is brighter when figures for the first quarter of this year are compared with those for the last quarter of 1984. Starts during that period are forecast to climb 10 percent in the West—the only region where starts are expected to rise—and dip only 1 percent in the South due to strong demand.

However, relatively high interest rates are expected to depress starts in the Northeast (down 17 percent) and the North Central (down 14 percent) between the last quarter of 1984 and the first quarter of 1985.

Northeast

In the Northeast starts will slip only 1 percent to 13,316 units from first quarter to first quarter. Boston, Philadelphia, Buffalo, New Brunswick, N.J., and New Haven, Conn., will see starts increase substantially; starts should improve somewhat in Pittsburgh. But activity will fall in New York City, Newark, Nassau-Suffolk, N.Y., Harrisburg, Pa., and Hartford, Conn.

South

The highest number of starts will continue to occur in the South despite an 18 percent drop in that region to 102,445 units. Starts should be healthiest in Florida where increases are forecast for Miami, Fort Lauderdale-Hollywood and Daytona Beach, among others. Texas will continue to suffer. Starts are forecast to plunge 48 percent in Houston and 33 percent in Dallas-Fort Worth. Atlanta, Orlando and New Orleans also will be losers.

North Central

Starts here will remain essentially comotose, slumping 13 percent to a paltry 19,541. Among the victims: Chicago, Columbus, Ohio, Detroit and St. Louis. Some improvement should occur in Minneapolis-St. Paul and in Cincinnati, but in both places starts are expected to be down from the fourth quarter of 1984.

West

Though improving, starts in the West will be down 15 percent from a year earlier. Starts will decline in Phoenix, Los Angeles-Long Beach, Denver-Boulder and Tucson. A strong increase should occur in Riverside-San Bernardino and starts should go up slightly in already strong San Diego.

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTHEAST

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
Northeast region total	13,443	24,258	24,230	15,965	13,316	−0.9
Boston	1,350	2,350	1,950	1,700	1,475	9.3
Buffalo	263	601	410	358	300	14.1
Harrisburg, Pa.	350	425	525	450	300	−14.3
Hartford, Conn.	790	1,260	1,450	885	725	−8.2
Nassau-Suffolk, N.Y.	1,360	2,520	1,455	1,305	1,155	−15.1
Newark, N.J.	864	1,431	1,198	880	500	−42.1
New Brunswick-Perth Amboy-Sayrevl, N.J.	262	1,813	1,860	1,762	538	105.3
New Haven-West Haven, Conn.	530	735	800	775	600	13.2
Somerest County, N.J.	260	320	525	495	295	13.5
New York City	2,910	4,160	3,755	3,045	2,700	−7.2
Philadelphia	2,148	5,453	6,701	1,698	2,278	6.1
Pittsburgh	1,088	1,556	1,375	1,000	1,125	3.4
Rhode Island	750	1,040	1,260	1,030	725	−3.3
Rochester, N.Y.	518	594	966	582	600	15.8

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: SOUTH

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
South region total	124,884	140,065	118,174	103,626	102,445	−18.0
Atlanta	12,305	14,900	12,340	11,760	11,100	−9.8
Austin	4,650	5,500	2,600	2,550	3,050	−34.4
Baltimore	3,020	4,320	4,620	3,630	3,070	1.7
Birmingham-Jefferson Co., Ala.	595	699	461	560	500	−16.0
Charleston, S.C.	2,099	2,519	1,449	1,200	1,100	−47.6
Charlotte-Mecklenburg Co., N.C.	1,746	2,001	1,422	2,650	2,050	17.4
Dallas-Fort Worth	24,900	24,200	20,100	13,700	16,800	−32.5
Daytona Beach, Fla.	1,044	1,504	1,534	1,588	1,667	59.7
Delaware	700	963	1,295	700	550	−21.4
El Paso, Tex.	1,400	1,446	739	875	800	−42.9

(continued)

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: SOUTH

(continued)

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
Fort Lauderdale-Hollywood, Fla.	2,441	3,268	4,725	5,060	3,900	59.8
Gainesville, Fla.	768	674	548	500	600	−21.9
Greenville Co., S.C.	796	785	929	337	360	−54.8
Houston	11,080	10,120	5,380	4,300	5,820	−47.5
Jacksonville, Fla.	3,769	3,162	2,760	2,000	1,700	−54.9
Lakeland-Winter Haven, Fla.	732	912	896	930	950	29.8
Little Rock-North Little Rock, Ark.	1,009	1,369	1,009	661	790	−21.7
Memphis	2,250	2,364	1,599	1,400	1,250	−44.4
Miami	2,614	4,101	4,875	5,225	4,850	85.5
Nashville-Davidson Co., Tenn.	2,289	4,112	2,472	1,727	2,250	−1.7
New Orleans	3,542	3,058	2,070	2,050	2,400	−32.2
Norfolk, Portsmouth, Va. Beach, Chesapeake	3,106	3,007	2,989	2,298	2,800	−9.9
Orlando, Fla.	6,090	6,230	5,830	5,810	5,530	−9.2
Raleigh-Durham, N.C.	1,507	1,750	1,930	1,500	1,025	−32.0
Richmond, Va.	1,432	2,602	1,572	1,660	1,835	28.1
Roanoke, Va.	575	525	460	475	635	10.4
San Antonio	4,169	5,105	5,600	4,456	3,750	−10.1
Sarasota-Bradenton, Fla.	2,170	2,100	1,730	2,010	2,150	−0.9
Tallahassee, Fla.	681	759	515	418	441	−35.2
Tampa-St. Petersburg	7,397	7,883	7,411	7,546	7,112	−3.9
Tulsa	2,062	3,014	770	475	410	−80.1
Washington, D.C.	7,614	9,496	8,994	7,000	5,800	−23.8
West Palm Beach-Boca Raton, Fla.	4,332	5,617	6,550	6,575	5,400	24.7

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTH CENTRAL

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
North Central region total	22,419	35,179	30,898	22,744	19,541	−12.8
Akron, Ohio	380	805	521	470	300	−21.1
Canton, Ohio	374	574	158	200	200	−46.5
Chicago	4,210	6,815	5,705	4,300	3,250	−22.8
Cincinnati	1,012	1,380	1,800	1,450	1,200	18.6
Cleveland, Ohio	817	1,255	972	401	567	−30.6
Columbus, Ohio	1,870	2,211	1,200	1,000	1,540	−17.6
Dayton, Ohio	250	575	675	550	300	20.0
Detroit	1,761	4,208	2,425	1,900	1,409	−20.0
Evansville, Ind.	306	529	395	250	190	−37.9
Flint, Mich.	85	251	247	150	70	−17.6
Indianapolis	591	1,096	1,918	900	540	−8.6
Kalamazoo, Mich.	200	300	325	275	195	−2.5
Kansas City, Mo.	2,630	3,200	3,570	2,600	2,900	10.3

(continued)

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTH CENTRAL

(continued)

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
Madison, Wis.	715	470	425	425	325	−54.5
Milwaukee	673	961	789	550	520	−22.7
Minneapolis-St. Paul	3,000	5,900	5,300	4,200	3,200	6.7
St. Louis	2,290	3,090	2,880	2,100	2,000	−12.7
Springfield, Ill.	150	133	65	35	60	−60.0
Toledo	282	529	413	350	200	−29.1
Wichita, Kans.	823	897	1,115	638	575	−30.1

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: WEST

	1984				1985	
	First quarter	Second quarter	Third quarter	Fourth quarter	First quarter	Percent change first quarter 1984 to first quarter 1985
West region total	87,194	99,801	84,210	67,614	74,320	−14.8
Albuquerque	1,736	2,416	1,942	1,206	750	−56.8
Anaheim-Santa Ana-Garden Grove, Calif.	3,835	5,023	4,600	3,542	4,500	17.3
Anchorage	977	1,716	1,299	458	400	−59.1
Bakersfield, Calif.	1,767	1,335	726	1,000	1,170	−33.8
Boise City, Idaho	391	610	361	300	293	−25.1
Colorado Springs, Colo.	2,587	3,452	1,614	1,150	975	−62.3
Denver-Boulder	6,590	8,044	4,982	4,566	5,104	−22.5
Fresno, Calif.	1,197	1,061	1,730	900	600	−49.9
Hawaii	1,100	1,722	1,226	900	500	−54.5
Las Vegas	2,982	1,980	2,433	1,400	1,600	−46.3
Los Angeles-Long Beach	9,433	9,247	8,000	6,320	8,000	−15.2
Modesto, Calif.	700	1,000	600	400	600	−14.3
Oxnard-Simi Valley-Ventura, Calif.	1,246	1,344	1,100	810	1,150	−7.7
Phoenix	16,000	15,700	14,600	13,700	12,700	−20.6
Portland, Ore.	1,098	1,531	1,408	1,650	1,350	23.0
Riverside-San Bernardino-Ontario, Calif.	7,119	10,756	8,500	7,625	9,000	26.4
Sacramento	2,574	2,971	3,092	2,765	2,200	−14.5
Salem, Ore.	114	146	201	187	160	40.4
Salt Lake City-Ogden	2,013	3,921	4,311	1,566	1,573	−21.9
San Diego	7,202	5,760	5,695	4,500	7,500	4.1
San Francisco-Oakland	4,100	5,400	3,200	2,500	4,000	−2.4
San Jose	2,200	1,950	1,550	1,200	1,200	−45.5
Santa Barbara-Santa Maria-Lompoc	641	543	562	600	700	9.2
Santa Rosa, Calif.	750	1,700	1,100	800	900	20.0
Seattle-Everett	3,790	4,270	4,530	3,460	3,600	−5.0
Spokane	246	577	645	210	250	1.6
Stockton, Calif.	406	726	704	899	395	−2.7
Tucson	3,900	4,000	2,900	2,400	2,400	−38.5
Vallejo-Fairfield-Napa, Calif.	500	900	600	600	750	50.0

Source: Copyright National Association of Home Builders

MARKETS

ARMS CUSHION FALL OF RESALES

Higher interest rates pushed existing home sales down during the third quarter of 1984 compared with the same period a year earlier, but adjustable rate mortgages cushioned the fall. In fact, 16 states bucked the downward trend, and saw resales of single-family homes, condominiums and cooperatives increase.

According to the National Association of Realtors (NAR), the nationwide resale pace slowed 2.7 percent from third quarter to third quarter, declining to an annual rate of 2.94 million units.

"The nationwide decline in home resale activity likely would have been much more severe if not for the relatively widespread use of adjustable rate mortgages," said Frank Katusak, NAR's vice president of economics and research. Some 68 percent of all resale loans closed in the third quarter were ARMs compared with 45 percent a year earlier.

Resale activity will continue to decline modestly through 1985 because interest rates are expected to remain relatively high, Katusak predicted. But he forecasts a mild upturn in 1986 because rates then should be down some.

California had the highest annual resale rate in the third quarter of 1984 at 353,000 units, but that was down 1.3 percent from a year earlier. Texas was second with 192,500 units, but that, too, was down—by 3.1 percent.

STATES WHERE RESALES ROSE
(in annual rates)

State	Number of resales third quarter 1984	Percent increase from third quarter 1983
Alabama	59,800	31.1%
Arizona	63,300	30.2
Delaware	9,400	1.1
Hawaii	6,600	1.5
Maine	23,900	7.2
Maryland	65,300	4.8
Michigan	137,000	7.1
Minnesota	60,300	11.0
Missouri	78,200	3.9
Nebraska	25,500	5.4
Pennsylvania	168,000	4.9
Rhode Island	13,600	78.9
South Carolina	41,900	1.2
Vermont	8,200	9.3
West Virginia	32,900	15.0
Wyoming	6,400	8.5

Source: National Association of Realtors

BUSINESS

DO-IT-YOURSELF GUIDE TO GOOD PUBLICITY

It has been said that an inch of good publicity is worth 10 inches of paid advertising. The reason is obvious: When someone reads an article that reflects favorably on you, it carries with it third-party endorsement.

The big question, of course, is how to get that good publicity. That is what the art of public relations (my field) is all about. People have spent decades learning how to do it; what follows is just a short cram course.

First, remember that reporters aren't in business to promote you. They're in business to inform and entertain their audience. You can get good publicity if you give reporters information that is useful to their audience. For example:

■ Do home buyers want to know how to get a mortgage, where the bargains are, what to look out for in purchasing, what the tax advantages are of buying rather than renting? Of course they do. Reporters depend on articulate authorities to provide answers to these questions. You could be such an authority.

■ Is there a new trend in homes in your town? Perhaps the prices of three-bedroom condos are not climbing as quickly as those of two-bedroom units because families are getting smaller. Perhaps bathrooms are getting larger. Tell your local reporters about it.

■ Propose a story to a local or regional real estate publication. There are close to 100 in the United States and Canada and if you have the help of a good local writer you'll have a good opportunity to see your name in print. That article can make an excellent reprint, which you can circulate to potential customers—and to bankers, when you're looking for a loan.

■ Announce your sales, your new personnel, your staff promotions, your expanded offices, etc. This won't always produce publicity, but often it will. If you announce several sales at once and that way are able to include a "magic" figure—e.g., $1 million or $2 million—you have a better chance of being written up.

■ Write an article for a related trade publication. Bankers, for example, have a great interest in real estate. Is there anything you can tell them? We suggested an article by one developer on the effect of overregulation on house prices, and a magazine ran it. Such an article also can be useful as a reprint. The fact that a major national publication uses it lends prestige to your firm.

These are only a few ideas. The next question is how to market these ideas. Send a brief, well-written letter (on your company letterhead—and be sure your telephone number is included) to the real estate editor of the local newspaper, to the news assignment editors of local radio and television stations, to the talk show producers of the local stations and to the editors of the local magazine and neighborhood newspapers. Explain in simple terms why your message can be helpful or interesting to their audiences. Mention your professional credentials.

A step beyond a simple letter is the press release. A well-written press release can gather attention—again, if it says something of interest to the public, rather than merely reciting your company's achievements.

Alternatively, a telephone call may do the trick. If you are calling radio and television people, or an editor on a morning newspaper, it is better to do so before noon; for the editor of an afternoon newspaper, it is better to call after 2 p.m. Before calling, prepare your "pitch" as carefully as you would for a letter. Explain briefly who you are and why you're calling, then ask whether the other party might be in-

CONTINUED ON PAGE 124

Remember the friendly local S&L? Now many larger S&Ls and other lenders are becoming directly involved in real estate development. And builders are worried that this new competition will be less than friendly.

CAROL ANDERSON, NEWS EDITOR

ROLE

Like a lot of builders, George Freelove is worried about S&Ls and banks getting into real estate development. The central Florida builder fears that lenders will undercut him on interest rates, outbid him for land and force him to joint venture as the price of a loan.

Freelove has reason to worry. In recent years S&Ls have become increasingly involved in real estate development through joint ventures with builders, through direct development of land, homes and commercial property by S&L service corporations without an independent builder and through apartment syndications. And the trend is continuing.

"Builders will see more competition from thrifts because legislators and regulators have opened the real estate field to them," said Allan Bortel, who analyzes the thrift industry for the investment firm Shearson/American Express. Thrifts are surging into all aspects of real estate development, Bortel said, in order to improve sagging profits. "They are still hurting from their large portfolios of old, fixed-rate mortgages. Thrifts believe real estate is a good place to make some money because the investment term better matches their short-term deposits."

That view is substantiated by a recent survey of 372 S&Ls throughout the country which found that nearly 60 percent are involved in real estate development, and half of those institutions plan to do more.

"A number of S&Ls have been involved in real estate, aside from mortgage lending, for years," noted Christopher Leinberger, president of Robert Charles Lesser & Co., the Beverly Hills consulting firm that conducted the survey. "But a noticeable trend toward greater involvement has recently become evident."

It's especially evident among large S&Ls—those with more than $750 million in assets. Nearly 90 percent of them are involved in real estate, according to the survey.

Most of the activity is in joint ventures (see charts, pages 196 and 197) followed by direct development, with syndications far behind. Although syndications currently are a small part of the action, that segment is expected to grow the most, the survey found. At the same time S&Ls expect the percentage of projects developed directly by their service corporations to increase slightly. The proportion of joint ventures is expected to fall but joint ventures will remain the largest type of development activity by S&Ls (see chart, page 199).

A majority of both the joint venture and direct development activity (60 percent) is in single-family and condominium for-sale housing, but the survey predicts that S&Ls will expand into commercial and industrial development, first by joint venture and then on their own.

REVERSAL

"It appears that most S&Ls have only put their toes in the water regarding direct development," the survey concluded. But some S&Ls, especially the very large ones in California, have more than just their toes in.

Los Angeles-based Home Savings, the second largest S&L in the country, for example, has been involved in real estate development through its service corporation for a number of years. Currently it is directly developing about half of its 22 real estate projects, and that's up over the last two years, said Charles Cencibaugh, vice president of the Home Savings service corporation.

He expects direct development to grow because "we prefer to do projects ourselves." But Home does joint ventures too, and prefers them in new markets such as Florida where local builders know the territory better.

Another large California S&L, Glendale Federal, also favors direct development. "We're builders," stated J. D. Ostic, assistant vice president and director of acquisitions for the service corporation. The company started doing joint ventures two years ago mainly because it wasn't ready for the housing turnaround.

"But we're not aggressively going after joint ventures," Ostic said. "That's a stopgap until we accumulate enough projects of our own." The service corporation, on its own, has built about 300 to 500 homes each year since the late 1970s. During the last two years it has purchased land on which it intends to build up to 1,300 units in the next three to five years.

As the survey indicates, however, not all S&L service corporations are bent on being builders. The subsidiary of New Jersey-based City Federal Savings & Loan is an example. It started doing direct development in the early 1970s, but over the past three years the emphasis has switched to joint ventures.

"It allows us to associate with experienced developers in different parts of the country," said George Mikula, service corporation president. "I sleep better at night knowing I've got a professional partner." However, Mikula expects direct development of commercial property to grow, and the service corporation is about to enter the apartment syndication field.

AmeriFirst Federal in Miami has taken a different tack. Its service corporation emphasizes land development and lot sales to builders, with joint ventures a secondary activity. The corporation also builds some homes itself, but usually just to get a project started.

"We can't compete with small and medium-sized builders who can build faster and more efficiently than we can," said Thomas Bomar, president of AmeriFirst. But the service corporation is a large player in the development field. Last

Computer graphics: Steve Phillips

year it developed at least 1,000 lots all over Florida.

"I'm sure some land developers are not pleased that we're in the business," Bomar said. "But most builders like to work with us because it allows them to do more than they could on their own." He added that even some large developers have sought joint ventures with AmeriFirst. "They don't particularly need us, but they want to spread the risk."

It's the direct development and land acquisition activities of S&Ls that most concern builders such as George Freelove. His fears are shared by a number of builders in other parts of the country, particularly in Texas where, as in Florida, state-chartered S&Ls in recent years have acquired broad powers to invest in real estate. In California where state S&Ls now have unlimited authority to invest in real estate, most builders seem to have adapted to the situation. But not all.

"Our biggest competitors are not other builders but the S&Ls and their service corporations," said one California builder. S&Ls have outbid him for land and driven up land prices, he contended.

Fort Worth builder Herman Smith said that for a time S&Ls were bidding up land prices in his area too. "But then they got smart and stopped that. A few got burned."

Builders also fear that S&Ls will tie loans to joint ventures, but currently, at least, it appears few are doing so. "I hear about it," said Smith, a former president of NAHB, "but I don't know of any recent instances." He said NAHB investigated the issue a few years ago but found few cases. It turned out to be "a lot of smoke but little fire."

While some builders undoubtedly have been hurt by what they see as unfair competition from S&Ls doing real estate development, it appears there is more fear of what might happen in the future than widespread injury to date. George Freelove typifies the attitude of many builders.

"S&Ls haven't hurt my business yet," said Freelove, whose company, Laurel Builders, closed 260 homes last year. "But I don't know what will happen. I'm worried that they will offer below-market rate money (on projects S&Ls develop alone or through joint ventures) or demand that I joint venture with them before they will give me a loan."

Freelove also is concerned about increased competition from other builders who joint venture with S&Ls. Those builders "are able to offer better interest rates and more amenities than they could otherwise," he said. "With an S&L behind you, you've got an unlimited checkbook."

And there's the rub. Many builders like to joint venture with S&Ls while others like Freelove think lenders should be kept completely out of development. A survey by NAHB's economics division last summer found that 14 percent of responding builders had participated in a joint venture with a financial institution in the past year. Activity was concentrated among builders who start more than 25 units a year: 24 percent of them had joint ventured.

According to the survey, about a third of the builders who had joint ventured said they could have gotten straight debt financing at feasible rates and 20 percent said they could not. About half, though, said they weren't sure if they could have obtained straight debt financing at feasible rates with-

Source: Robert Charles Lesser & Co./Ernst & Whinney National S&Ls in Real Estate Survey

out joint venturing.

Although NAHB emphatically opposes lenders getting into development, it's clear that many builders have mixed feelings. Smaller builders may want to joint venture with a financial institution because it can help them compete with large builders, and larger builders may want to do it to share the risk.

Lenders may not become the onerous competitors many builders fear, but they clearly possess some big advantages. The biggest is "access to unlimited funds—federally insured deposits," said analyst Bortel. "That's a formidable leg up." That advantage allows service corporations to pay cash for land and get preferential loan treatment from the parent S&L, some builders charge.

Service corporation executives say it's true they can pay cash for land, but that they would rather do business like any other developer. They deny getting better interest rates on loans or driving up the price of land.

"We don't give our service corporation any special breaks on rates," said Bomar. "In fact, they get most of their financing elsewhere where rates are better. If S&Ls are irresponsibly accelerating land prices, I'm not aware of it." Cencibaugh of Home Savings and Ostic of Glendale Federal also deny getting favorable rates from the parent S&L, but Ostic said his service corporation can expedite the loan process—something other builders can't do. Both say they are able to pay cash for land and have done so at times.

"We think like builders," Ostic said. "We don't want to pay cash for land, but we can if the need arises. I've never outbid a developer (for land) and I've never tried to," he added. "If I did, the price could go too high and the project wouldn't be feasible."

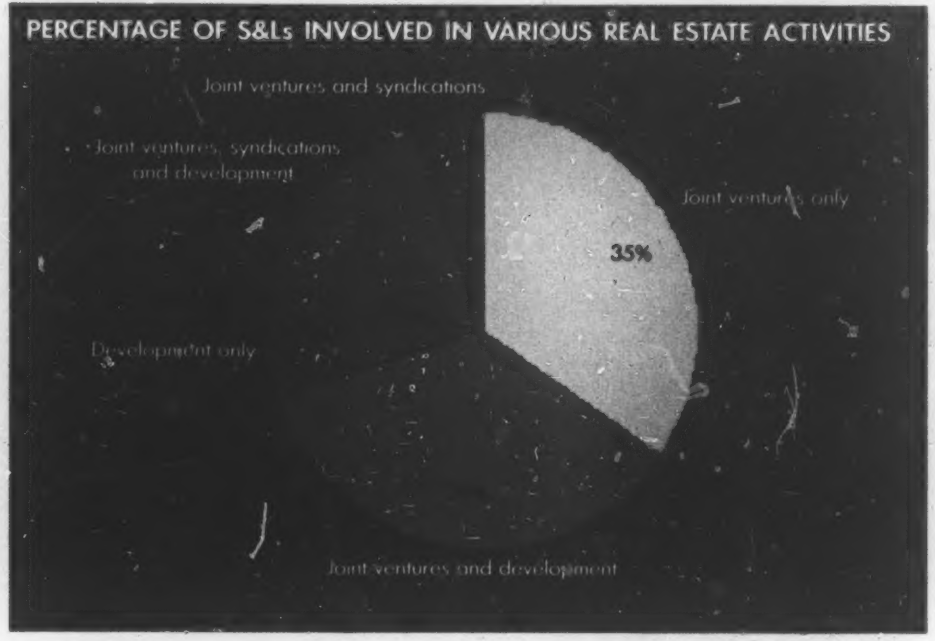
Consultant Leinberger is another who doesn't attach much weight to developer complaints that lenders are outbidding them for land and driving up land prices. "You hear that any time there's a new player. You heard that with the Canadians in the late 1970s and the REITs in the early 70s. But those who buy land unwisely generally develop land unwisely. They don't last."

Nevertheless, Ostic thinks builders have cause to resent S&Ls with their "deep pockets" coming into the business. "I'm sure some S&Ls are infringing on the business and that some builders feel squeezed out of the market."

Another S&L executive, Jerry Bills, president of Fidelity Federal Savings, Galesburg, Ill., agrees that builders have reason to worry "especially in California where S&Ls are buying so much land." Fidelity's service corporation joint ventures in California, so Bills knows what builders there face.

But oddly enough, few California builders are squawking—even though in 1983 state-chartered S&Ls were given unlimited authority to invest in real estate and state banks were given broader real estate powers. "Some builders are very concerned, but basically it's a non-issue," said Don Collin, a lobbyist for the California Building Industry Association. Builders didn't even organize to fight the bill expanding bank real estate powers.

The reason: "Most builders like to joint venture," and they figure the more competition among joint venture partners the better, Collin said. "Land development takes so


PERCENTAGE OF S&Ls INVOLVED IN VARIOUS REAL ESTATE ACTIVITIES

Source: Robert Charles Lesser & Co./Ernst & Whinney National S&Ls in Real Estate Survey

much time, is so expensive and so risky that smaller builders just can't do it any more." So when a California builder buys developed lots, he doesn't care whether he buys them from a financial institution or from another developer.

Things are different, however, in Texas where two years ago builders helped defeat an effort by state banks to expand their real estate powers. "California builders aren't complaining about S&Ls and banks getting into development because it takes years to get approvals there, so builders like to use financial institutions to warehouse land," said builder Herman Smith. In Texas approval time is much shorter, he said, so builders don't need institutions to carry land.

Although state-chartered S&Ls in Texas have a great deal of authority to invest in real estate, there currently is little danger that they could force builders to joint venture (or do without a loan) because alternative financing is available from banks. "That's why builders opposed the move to expand banks' real estate powers," explained Galt Graydon, lobbyist for the Texas home builders association. "If both your sources of money can do joint ventures, we can see builders being relegated to construction superintendents."

Most California builders, however, obviously aren't worried about that. Collin, for example, believes there is a major constraint on S&L involvement in development no matter how much they are permitted to do. That constraint is the IRS rule that gives them favorable tax benefits if they invest more than 60 percent of their assets in, primarily, housing loans. The bigger the percentage of assets the bigger the tax benefit.

"Besides getting into a field they know nothing about, S&Ls risk losing a tax advantage if they get in too far," Collin said.

It's beginning to look as if there are other constraints on S&Ls as well. The Federal Home Loan Bank Board primarily regulates federally chartered S&Ls, but through the FSLIC it also can reach out and touch state S&Ls because most are federally insured. The Bank Board has become increasingly alarmed about what it sees as growing risk-taking by S&Ls that could threaten the solvency of the FSLIC insurance fund (see December BUILDER, page 32).

As a result last summer the Bank Board proposed regulations clamping down on some lending activities of FSLIC-insured S&Ls. As proposed, institutions could invest no more than 10 percent of their assets or twice their net worth—whichever is greater—in real estate, service corporations and equity securities. Although only proposed, the regulations have had an effect.

"Since 1980 we've seen many S&Ls moving into real estate, but since last summer they've been moving out," Smith observed.

Still the trend is toward greater S&L involvement in development. Since 1980 both federal and state-chartered S&Ls, as well as banks in some states, increasingly have been able to invest more in real estate.

"It's a growing problem (for builders)," said Ginger Brown, who follows depository institutions for NAHB's government affairs division. "But I don't think it will be an issue much longer because it's going to happen. It already is happening. It's snowballing so fast in the new competitive environment that it will be very difficult to stop."

S&Ls were given broader investment and lending powers to help them compete with banks and survive the recession. S&Ls still are in "very poor shape" and need all the aid they can get—including real estate powers—to pull through, said consultant Leinberger.

"But there is no assurance that S&Ls will succeed in real estate development," Leinberger added. "They are at a major disadvantage in the way they attract and keep good people, and many don't have the right people in their real estate departments. Often they take a loan officer and make him a real estate expert." In addition, many S&Ls have a ponderous bureaucracy which prevents them from moving quickly, he said.

As Bomar, of AmeriFirst Federal in Miami, put it, "Most builders don't have to worry about competition from S&Ls because they know what they're doing and have been doing it for a long time."

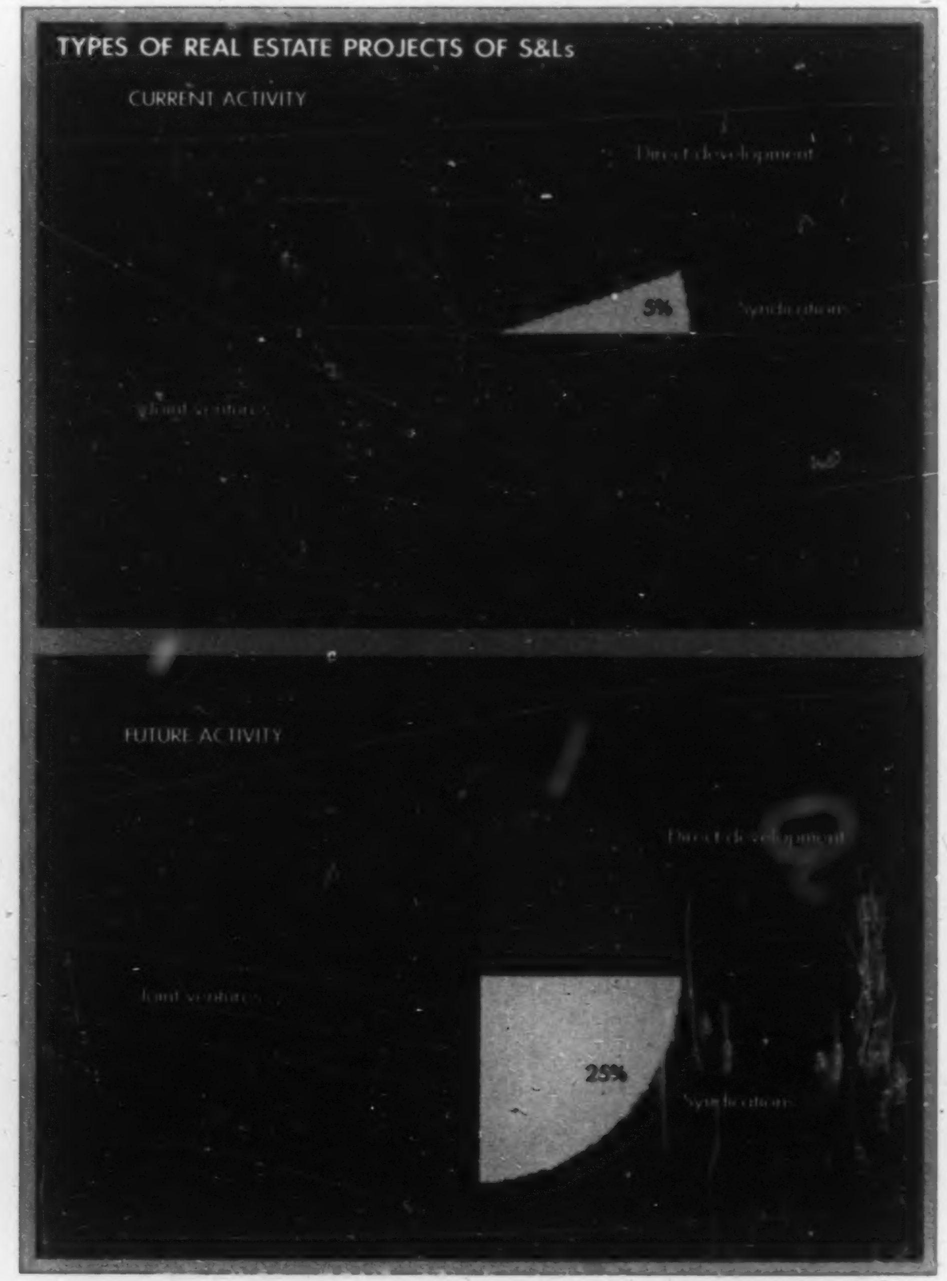
The increasing involvement of S&Ls in real estate will make financing an integral part of the development process, Leinberger predicted, and could lead to smoother housing cycles if financial institutions have more of a stake in development.

The effect on developers? "They will begin to be packagers. They will be less involved in the total development process." However, he said that developers will not be replaced "even if S&Ls are wildly successful. There is plenty of room for independent developers. It's a big industry, and S&Ls won't have a monopoly."

In fact, many lenders contend builders shouldn't complain too loudly about S&Ls getting into development because increasing numbers of builders are buying or starting their own S&Ls. Leinberger said that, too, is a trend, though not as significant as S&Ls getting into real estate.

Builders are making other inroads into the mortgage finance field that disturb lenders. "The days of market segmentation are over," observed James Christian, chief economist of the U.S. League of Savings Institutions. "All those lines are being crossed. S&Ls are in real estate, but builders are issuing builder bonds, and that worries lenders. Unless builders want to close it all down again, they'll have to learn to live with it."

Christian jokingly proposed a trade. "We'll promise not to hold raw land if builders promise not to do builder bonds."



Source: Robert Charles Lesser & Co./Ernst & Whinney National S&Ls in Real Estate Survey

BUILDER

C4300-1

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

FEBRUARY 1985

C11 0846993 1HW JUN67 SAMPL
JEAN LONG X45
CONGRESSIONAL INFO SERV DIR
4520 E-W HIGHWAY STE 800
BETHESDA MD 20814

VOLUME 8, NUMBER 2 ■ FEBRUARY 1985

BUILDER

COLUMNS

5 About Building
20 Money
26 Washington
32 Marketing

DEPARTMENTS

11 Outlook
128 Sketchbook
130 Shoptalk
137 NAHB Report
145 Product News
155 Ad Index
156 Mail

NEWS

48 Tax plan complicates housing outlook
52 Tax proposal already kills deals
58 Condo buyers pay decorating allowance
62 Computers' next stop: housing finance
68 Do-it-yourselfers like expandable plans
68 Job inspection? Raldon's buyers do it
74 Levitt strikes again
76 Impact study proves housing pays its way
80 Big house in Mill Creek costs little to heat
86 HOMAC has someone new at the helm
86 New anti-trust law doesn't suit builders
86 Upstairs downstairs, Florida style

33-44 Advertising insert: Kitchen & Bath Color & Design Guide

110

118

122

94—NEW PRODUCTS '85

Our annual introduction of new products for the new year, with emphasis on interiors, exteriors, construction, HVAC and kitchens and baths.

110—LIFE AFTER SECTION 8

The Section 8 program is dead, and even its advocates initially accepted its passing quietly. But now, with no new rental housing production program in place or even proposed, some industry leaders are asking how low-income Americans will be housed.

118—PROJECT OF THE MONTH

At this point almost everyone is sensitive to saving landmark old buildings. What's the next step? Builder-architect Bill Finnicum thinks he knows: transforming undistinguished old houses in good locations into upbeat residences for young buyers.

(Cover: 208 Brown Street Condominiums, Birmingham, Mich. Photo: Copyright Balthazar Korab)

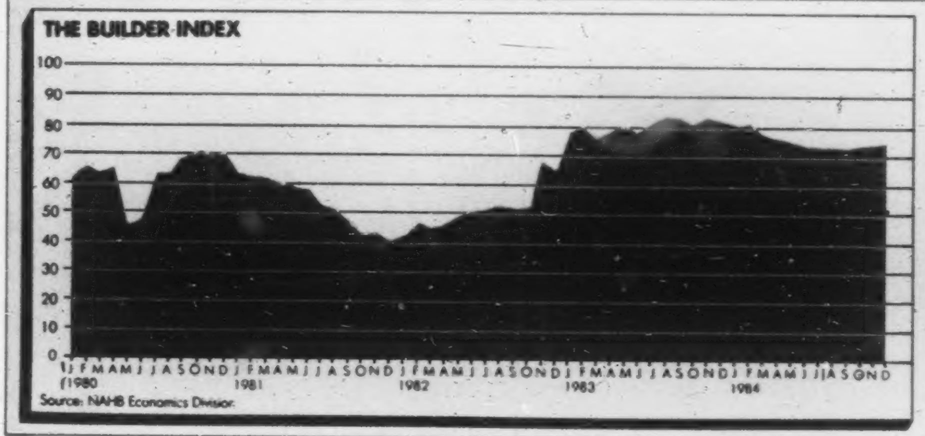
122—MAKING PEACE

For years they've been feuding. Builders calling architects impractical. Architects calling builders boorish. Finally the two sides seem ready to settle their differences.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION

THE BUILDER INDEX



Source: NAHB Economics Division.

The BUILDER Index increased in December to 76.78 as interest rates continued to recede.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Problems Ahead

Michael Sumichrast
NAHB chief economist; Washington, D.C.

Just when declining interest rates seemed to be changing the mood of builders from concerned to optimistic the Treasury Department unveiled its new tax proposals. Almost immediately the optimism started to fade, and builders, especially multifamily builders, began changing their plans for this year.

If adopted, the Treasury proposal would represent the most sweeping change ever in the nation's tax laws. Among the changes are some that would make owning a home and many types of real estate investment less attractive.

That obviously has builders worried. But so does the sense they have that the likely debate over tax reform will divert attention from the deficit, which for most builders and many economists seems the more pressing matter.

Few economists believe that interest rates can be brought down sufficiently, on a sustained basis, until the deficit problem is resolved. And if that problem isn't solved, the economy is headed for trouble. Or as Walter Heller, one of the nation's leading economists, said, "If the White House leadership fails us on the deficit, we will have nothing but trouble ahead."

For now, however, Washington is focusing on tax reform proposals. For housing the greatest potential impact, most agree, would be in the multifamily sector. "Eliminating the investment tax credit and removing the accelerated cost recovery system (ACRS) would eliminate virtually all substantial rehab construction," said Lester Day of American Diversified Capital Corporation, a major multifamily building firm.

Following is a summary of provisions from the Treasury tax proposal that will affect rental housing and homeownership. In some cases, the effect would be beneficial, as is the case in reducing personal tax rates. But in most cases, the proposal would hurt real estate.

HOW DIFFERENT TAX PLANS WOULD AFFECT HOUSING STARTS

Year	Treasury	Bradley-Gephardt	Kemp-Kasten
1986	−143,000	−147,000	− 73,000
1987	−125,000	− 67,000	− 49,000
1988	− 66,000	7,000	0
1989	6,000	41,000	45,000
1990	61,000	119,000	65,000
1991	77,000	167,000	95,000
1992	70,000	188,000	107,000
1993	49,000	209,000	97,000
1994	29,000	209,000	94,000
1995	8,000	213,000	96,000

Source: Data Resources, Inc.

The rental market would be affected adversely by the proposal to reduce the depreciation allowance for rental structures to 3 percent a year, calculated on an indexed basis. Other proposals that would hurt rental housing include those that would:

- Limit investment interest deductions to net investment income, plus $5,000;
- Include limited partnerships and "passive" Sub-S corporations in the calculation of net investment income;
- Remove the investment tax credit;
- Eliminate all special treatment for low-income housing; and
- Repeal rehabilitation tax credits.

While the proposed reduction in personal tax rates would encourage homeownership, many of the other proposed changes would not. For example, if the deduction for all state and local taxes, including property taxes, was eliminated, taxpayers who itemize deductions would end up paying on average $30 more a month for housing. The

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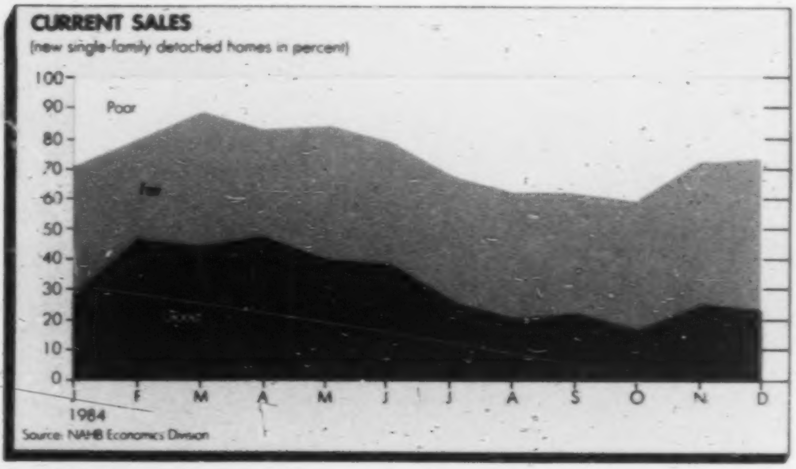
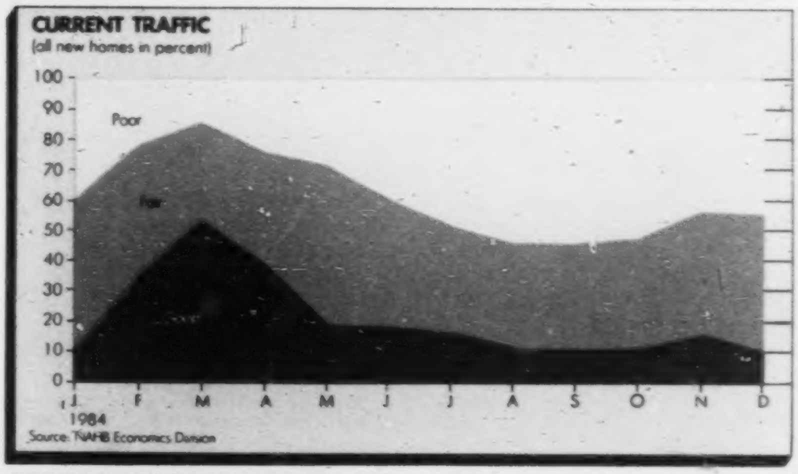
OUTLOOK/BUILDER POLL



CURRENT SALES

(new single-family detached homes in percent)

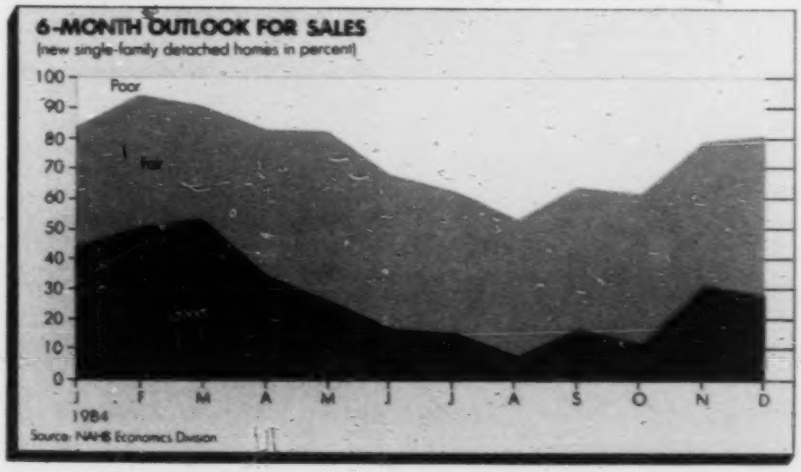
Source: NAHB Economics Division



CURRENT TRAFFIC

(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)

Source: NAHB Economics Division

NO MORE PANIC

Builders have taken their fingers off the panic button. From last summer into early last fall they seemed ready to push that button as rising interest rates threatened to push housing headlong into another recession.

But according to the December BUILDER Poll those fears have subsided—along with interest rates. That's not to say builders expect a boom: Only about 25 percent report current sales of new single-family homes as good (top chart) or expect them to be good over the next six months (bottom chart).

Instead the sense seems to be that the market will be steady. About half those surveyed described the six-month outlook as fair. And while some 20 percent expect the market to be poor, that is down dramatically from 47 percent in August.

Current sales and the six-month outlook vary considerably from region to region. In the Northeast 70 percent of the builders report good sales now, and 57 percent expect strong sales to continue. In the Midwest and West, on the other hand, the market is soft now and builders in both regions expect little improvement.

That may be why a builder in Wisconsin said, "This isn't a Mecca for housing," while a New York builder said, "It hasn't been this good in 30 years, and I look for a strong spring market."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

DELINQUENCY PROBLEM

Home mortgage delinquencies hit a record high in the third quarter of 1984, according to a survey by the Mortgage Bankers Association (MBA). The rate of mortgage payments at least 30 days past due rose to 5.86%, up from 5.46% in the second quarter. The previous high was 5.76% in the first quarter of 1983. The largest increases in delinquencies came from government-backed mortgages. Delinquent FHA-insured loans rose to 7.57% from 6.99%, and delinquent VA-guaranteed mortgages climbed to 6.63% from 6.12%. MBA blamed the increases on "still historically high levels of unemployment."

CREATIVE COMMERCIAL FINANCING

In a move that could increase investment in commercial real estate, the securities rating firm Standard & Poor's has begun issuing ratings on debt obligations secured by commercial mortgages. The new ratings system is seen as a major step toward development of a formal secondary market for commercial and multifamily mortgages—one that will encourage investment especially by institutional investors such as pension funds. In a related development, the first collateralized mortgage obligation (CMO) backed by commercial mortgages has been issued by Salomon Brothers and Penn Mutual Life Insurance Co. The $205 million privately placed issue is collateralized by mortgages on office buildings, apartment buildings, shopping centers and warehouses.

MORE FOR THE MONEY

S&Ls paid more for their money in the third quarter of 1984, the latest quarter for which statistics are available. The average cost of funds for FSLIC-insured savings institutions climbed to 10.27% from 9.80% in the second quarter of last year, the Federal Home Loan Bank Board reported.

MOBILE UNITS

Mobile homes comprised 5.3% of the nation's housing stock when the 1980 census was taken, the Census Bureau reported recently. Mobile home units totaled nearly 4 million in 1980, up from 2.1 million in 1970. States with the highest proportions of mobile homes were Wyoming, 18%; Arizona, Montana, Nevada and New Mexico, 13% each; and Idaho, 12%.

CONDO COLLAPSE

The condo market remained soft in most areas of the country during the third quarter of 1984 but especially in many Sunbelt cities where plentiful and cheap rentals helped slash condo sales by at least 50% compared with third quarter 1983, according to the most recent survey by U.S. Housing Markets, a publication of Lomas & Nettleton Financial Group. Disappearance of the investor market for condos is a big reason for the drop—investors have constituted as much as 50% of the condo market in many Sunbelt areas and in Philadelphia, Minneapolis and Seattle. Investor interest has been dampened by stricter standards imposed by private mortgage insurers worried about relatively high mortgage defaults by investor buyers.

RESALES REVIVING

Sales of existing single-family homes climbed a healthy 9% in November to an annual rate of 2.89 million units, the National Association of Realtors reported. It was the first rise in six months. The number of resale homes on the market at the end of November totaled 2.45 million or a 10.2-month supply at the November sales pace.

CONTINUED FROM PAGE 11

proposed repeal of single-family mortgage revenue bonds could cost housing 75,000 starts in the first year, while repeal of the installment sales treatment for builder bonds will add $50 to $70 to the monthly payment for a typical new home buyer. Finally, one proposal that in effect limits the interest deduction on second homes—the Treasury proposal doesn't touch the deduction on primary homes—would devastate the resort housing market.

This is not to say, however, that a simplified tax system is all wrong. Not at all. The present tax system is archaic, full of complexities and a heaven for tax lawyers. And through the tax shelter system it distorts economic development. Too many business decisions now are made from tax considerations not market considerations. In construction this accounts for a large amount of overbuilding of office buildings and condominium projects.

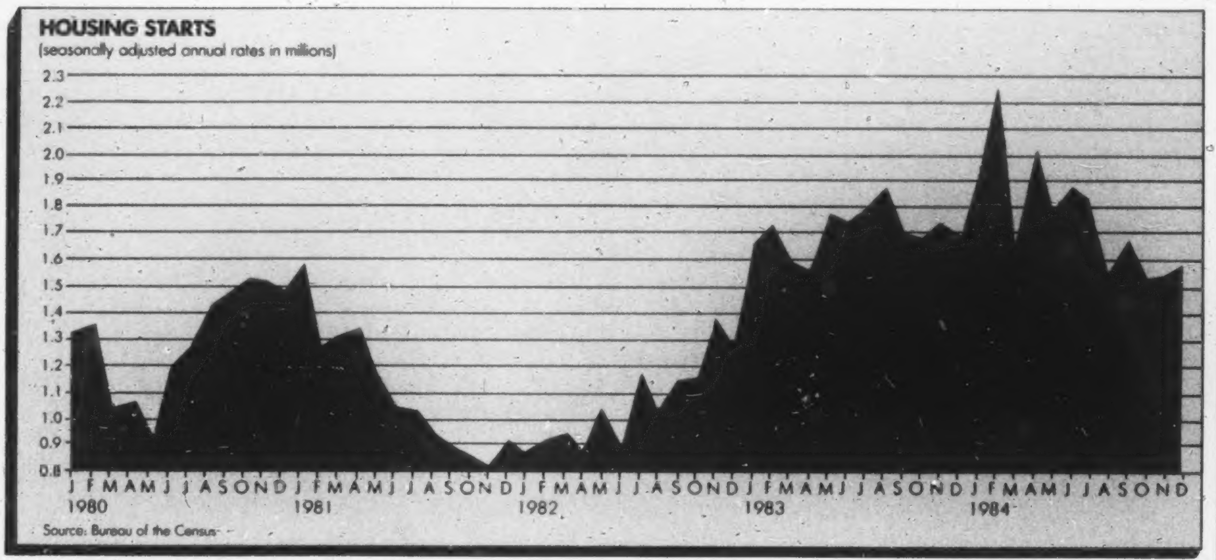
The lowering of individual tax rates to a maximum of 35 percent from 50 percent and lowering the number of tax brackets from 14 to 3 will help. More people at the bottom would pay no taxes and the average tax will drop by 8.5 percent. That will help people save.

But what would the impact be on housing? Most studies trying to measure the potential impact of the proposals agree that in the short term housing will decline sharply. I estimate that starts will fall by about 300,000 units in the first year after the proposal was enacted. Most of the drop would be in the rental apartment sector. But after three or four years most analysts conclude (see accompanying table) that housing would probably benefit, particularly for-sale housing. This is because the mortgage deduction, although worth less, would be virtually the only tax shelter available to most taxpayers.

In addition to changes in housing starts, housing prices, assuming there is no decline in interest rates, also will be affected. Lower priced homes, those less than $45,000, will hold their value or the value will increase slightly; however, the most expensive homes, those priced more than $142,000, will decline in value.

Of course, all the forecasted effects of tax changes are only crude "guesstimates." They do, however, suggest a great deal of uncertainty in the months ahead, and uncertainty alone will have an adverse effect on the market.

OUTLOOK/STATISTICS

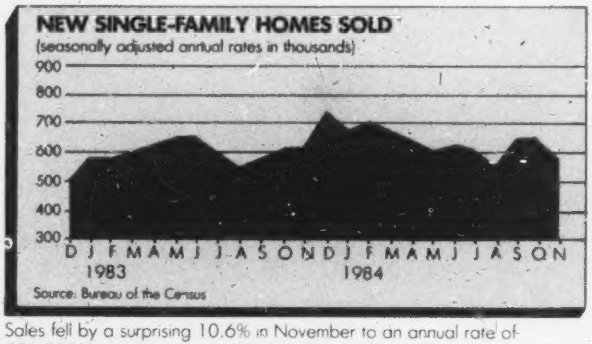


HOUSING STARTS

(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

Starts edged up 2% in December to an annual rate of 1.59 million from an upwardly revised November rate. That was 6% lower than the December 1983 rate. Total 1984 starts were 1.75 million, up 2.4% from 1983.

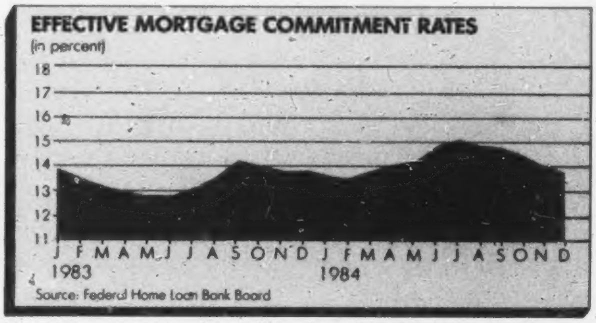


NEW SINGLE-FAMILY HOMES SOLD

(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

Sales fell by a surprising 10.6% in November to an annual rate of 591,000, but housing analysts believe activity is stronger than the preliminary November numbers indicate.

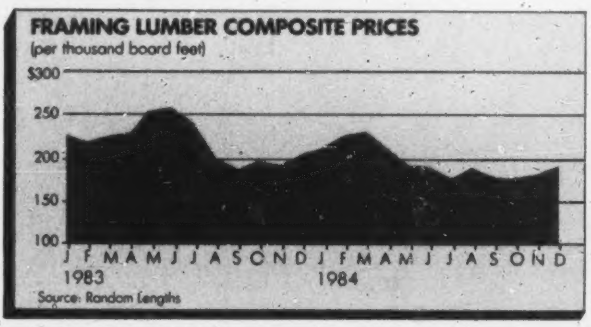


EFFECTIVE MORTGAGE COMMITMENT RATES

(in percent)

Source: Federal Home Loan Bank Board

Mortgage rates continued to tumble in December. Fixed rates fell 27 basis points to 13.82%-the lowest in nine months. Uncapped adjustable rates declined 34 basis points to 12.23%.

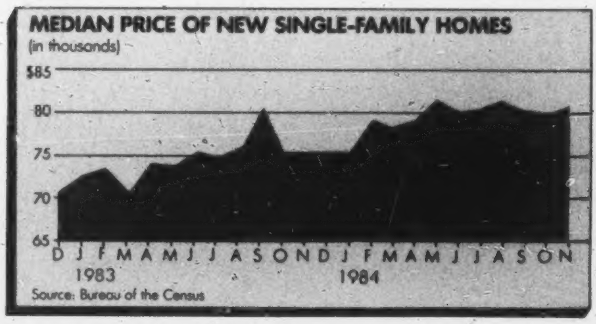


FRAMING LUMBER COMPOSITE PRICES

(per thousand board feet)

Source: Random Lengths

Lumber prices increased 6.5% in November to $196 per thousand board feet. It was the second straight monthly rise after prices fell during most of the year. The November price still was lower than a year earlier.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES

(in thousands)

Source: Bureau of the Census

The median price of new single-family homes rose by $1,700, or 2%, in November to $81,700. The November price was $5,800, or 7.6%, higher than a year earlier.

LIFE AFTER SECTION 8

PENELOPE LEMOV, BUSINESS EDITOR

Section 8, the keystone of subsidized housing programs, is gone. This victory for the president's budget-cutting men represents a reversal of America's 50-year-old housing policy traditions. And, for many cities and builders it now raises an agonizing question: How will low-income Americans be housed? Four approaches—see accompanying stories—are pointing the way.

George Brady owns a long memory, one that harks back to the 1960s when American cities were in ferment and voters, the president and Congress were committed to better housing for everyone.

"It was a time when housing for low and moderate-income people was a God, mother and American flag issue," recalls the president of Washington, D.C.-based National Corporation for Housing Partnerships (NCHP), the publicly held BUILDER 100 company formed by congressional mandate 14 years ago to help meet low-income housing needs. "People wanted it, and there was support for housing programs in Congress and the administration."

So strong was that support that the Department of Housing and Urban Development (HUD) was created in 1965, and with it programs to encourage production of low and moderate-income housing. By 1974 that support was translated into Section 8, a program designed to produce new rental housing through the private market. The federal government subsidized the rent on each unit built for a low to moderate-income household as well as rents on existing units. A variety of interest rate subsidies (Ginnie Mae Tandem, tax-exempt bonds) minimized builders' loan costs. In its heyday Section 8 produced more than 100,000 units a year and signaled that the full force and pocketbook of the federal government backed better housing for everyone.

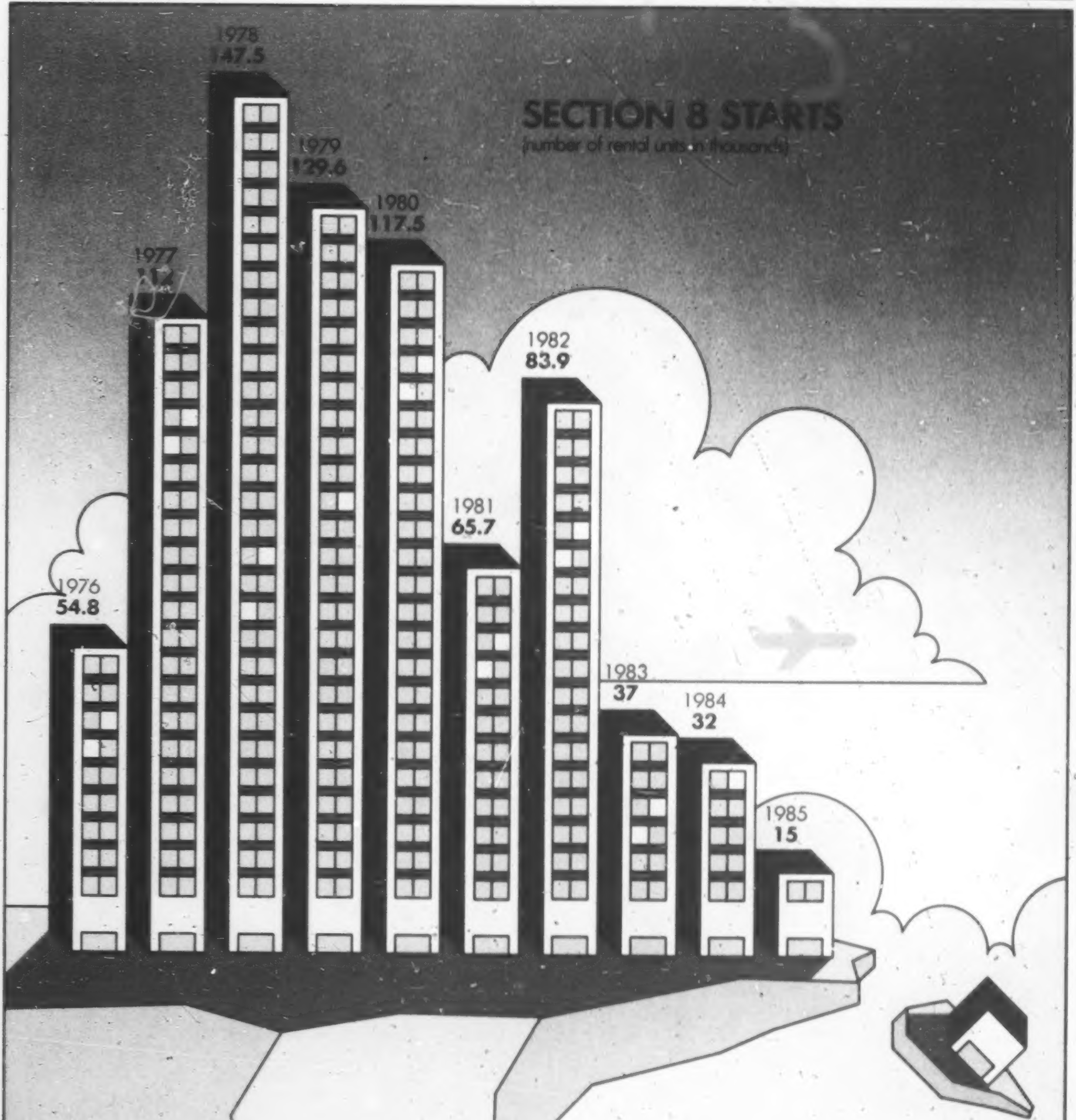
Times, of course, change. "The public level of concern is different now," Brady admits. "The pendulum is swinging in a different direction."

Section 8 production subsidies are all but gone, budgeted out of existence in 1982. The few projects still in the pipeline should be finished in a year or two. There is nothing to take its place.

"Subsidized housing? I remember subsidized housing," muses a builder whose memory short-circuits Brady's. "I have a picture of one on my wall—right up there next to a Studebaker and an Edsel."

While even its proponents had misgivings about Section 8's new production cost effectiveness—subsidies for each new construction unit nearly tripled in eight years—many people think the needs the subsidized housing program addressed are more acute than ever. Baltimore has 40,000 people on a waiting list for public housing. In Denver, families wait up to three years for assisted housing. New York City, Boston and San Francisco have closed or may close some waiting lists. In Shreveport, La., a third of the rental stock is in substandard or dilapidated condition and even so, there's a shortage of that type of housing. "We have two and three families living in one house; we have a tremendous number of people with no place to go," reports George Gray, Jr., executive director of the Shreveport Rehabilitation Project. The numbers from Los Angeles and Chicago are even worse, and the list goes on. Overall, 51 of 66 cities polled recently by the U.S. Conference of Mayors reported demand for assisted housing increased during 1983 while the supply diminished.

Housing advocates claim that of the 12 million poor households (those earning less than 50 percent of median income), at least 9 million are living in overcrowded, substandard units or are paying more than 30 percent of their income for housing. Moreover, the gap between renters' income and the price of affordable rental housing has widened by 35 percent in the last decade, according to Barry



Source: U.S. Department of Housing and Urban Development

Illustration: Bergman Hake Design

Zigas, president of the National Low Income Housing Coalition. NAHB's recently released mortgage financing report by the multifamily task force found median house prices have increased 10 percent since 1980 while rental prices have increased 37 percent.

While many housing advocates look at Baltimore's, New York City's, Los Angeles's, San Diego's and other cities' housing shortages and believe there is an overwhelming need for more stock for low-income households the Reagan administration's position is that the housing problem for low and moderate-income renters is one of affordability, not availability. Administration spokesmen point to national vacancy rates of 5.6 percent—5 to 6 percent is considered normal.

Anthony Downs, a senior fellow in economic studies at the Brookings Institution, a Washington, D.C., research organization, has a similar overview. "The problem is poverty. People don't have incomes to pay for housing."

Speaking at a fall NAHB conference, "Housing America—the Challenge Ahead" (BUILDER, January 1984), HUD Secretary Samuel Pierce spelled out the administration's housing agenda. "As our underlying program we have vouchers to help people pay their rent. Because there are pockets of shortages, we have a modest rehab and building program. We have a building program for the low-income elderly and are improving constantly our public housing through rehabilitation, modernization and improved management. And that's our basic program right now."

The 1985 budget allots funds for 100,000 new units or households: 12,000 Section 202 (elderly/handicapped), 76,000 rent vouchers (including existing Section 8 subsidies), 5,000 moderate rehab (Section 223 F), 5,000 public housing and 2,000 Indian housing. In addition, a new program, Housing Development Action Grants (HoDAG) has awarded $288 million worth of grants which should yield 14,500 units, 20 percent of which are earmarked for low and moderate-income tenants.

The voucher system, though, is the cornerstone of administration policy. Vouchers are rent subsidies or allowances which are awarded tenants on a basis of income and which are used toward rental payments. Those receiving vouchers can use the money to rent existing apartment units or houses in the neighborhoods of their choice. Housing officials say they can help house 10 times as many poor families with vouchers as they could spending the same money on construction subsidies.

"There are very few markets in this country where, if you had lots of vouchers and rehab money, you couldn't house your poor people because of lack of stock," claims Nancy Chisholm, HUD's director, Office of Policy for Public and Indian Housing. At the same time, she notes that the current level of funding is woefully inadequate. "At the rate of 100,000 a year, it will take us 90 years to meet the needs of our currently under-served population."

Leon Weiner, a Delaware-based builder and long-time activist in housing policy, rejects the voucher system as a solution. "It's the reckless throwing of money at a problem. Talking about affordability is fine, but it doesn't mean a thing

A GLOSSARY OF HOUSING SUBSIDY PROGRAMS

Public Housing: The first (1937) subsidized production program for low-income housing. Federal government pays principal and interest on bonds issued by local authorities. Still going, but not too strong: level of funding (5,000 units) at lowest ebb this year. HUD-administered.

Section 236: Below-market interest rate program. Began, 1968; terminated, 1973, during Nixon moratorium.

Rent Supplement Program: Rental assistance for low-income families, 1960s. Supplement no longer in effect.

Section 202, Housing for the Elderly and Handicapped: Direct low-interest loans to nonprofit sponsors to build housing for elderly and handicapped. Began in 1969; was producing 20,000 units a year; current funding, 12,000 units a year.

Section 23, Leased Housing: Subsidized rent program. Originated, 1965; curtailed in 1973. Forerunner of Section 8 existing units program.

Section 515, Rural Rental Housing Loans: Direct mortgage loans (usually at 1 percent) for construction or substantial rehab of rental or cooperative housing in rural areas. Administered by FmHA. Program may be terminated.

Ginnie Mae Tandem: Interest rate subsidies. Began in 1970; terminated, 1982.

Tax-Exempt Bond Financing: Low interest rate loans. Used extensively with Section 8; may be terminated.

Section 8: Rent assistance tied to units in new projects (Section 8 production) and existing projects. Interest rate subsidy programs used extensively in conjunction with program. Began, 1974; terminated, 1982.

Experimental Housing Allowance: Vouchers for rents in private market. Began in 1973; ended, 1980. Forerunner of present demonstration voucher program.

Section 17, Rental Rehab: Matching public grant/private financing for moderate rehab of existing rental units. Used in conjunction with rent vouchers. First started, 1983.

Demonstration Voucher Program: Housing allowances in which low-income households can choose housing and apply allowance to rent. Congress funded a pilot project which will assist 56,000 low-income families.

Housing Development Action Grants (HoDAG): Funds to assist localities in new construction or substantial rehab of rental housing. Administered by HUD. Began in 1984; funded for 1984 and 1985; may be terminated, as may Community Block Development Grants (public improvements) and Urban Development Action Grants (increase tax base; add jobs), both of which allocated money to local communities and were often used for low and moderate-income housing projects.

TAX-EXEMPT, SAUNA AND ALL

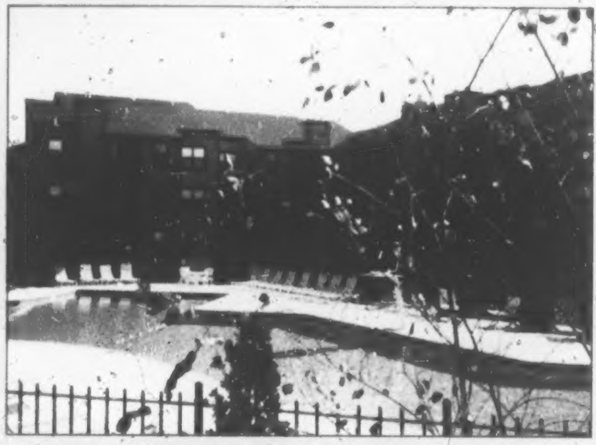


Photo: Courtesy Oxford Development

Two clubhouses, four tennis courts, two swimming pools, volleyball courts, gazebo, sauna and picnic area with a small pond are available for the relaxation and recreation of tenants at Oxford Development Corp.'s 640-unit Shenandoah Crossing in Fairfax, Va.

The project, which was designed by Bucher Meyers, Silver Spring, Md., was financed by a $31,500,000 tax-exempt bond issued by the Fairfax County Redevelopment and Housing Authority. The 7⅝ percent interest rate on the bond went a long way toward helping Oxford keep project costs down.

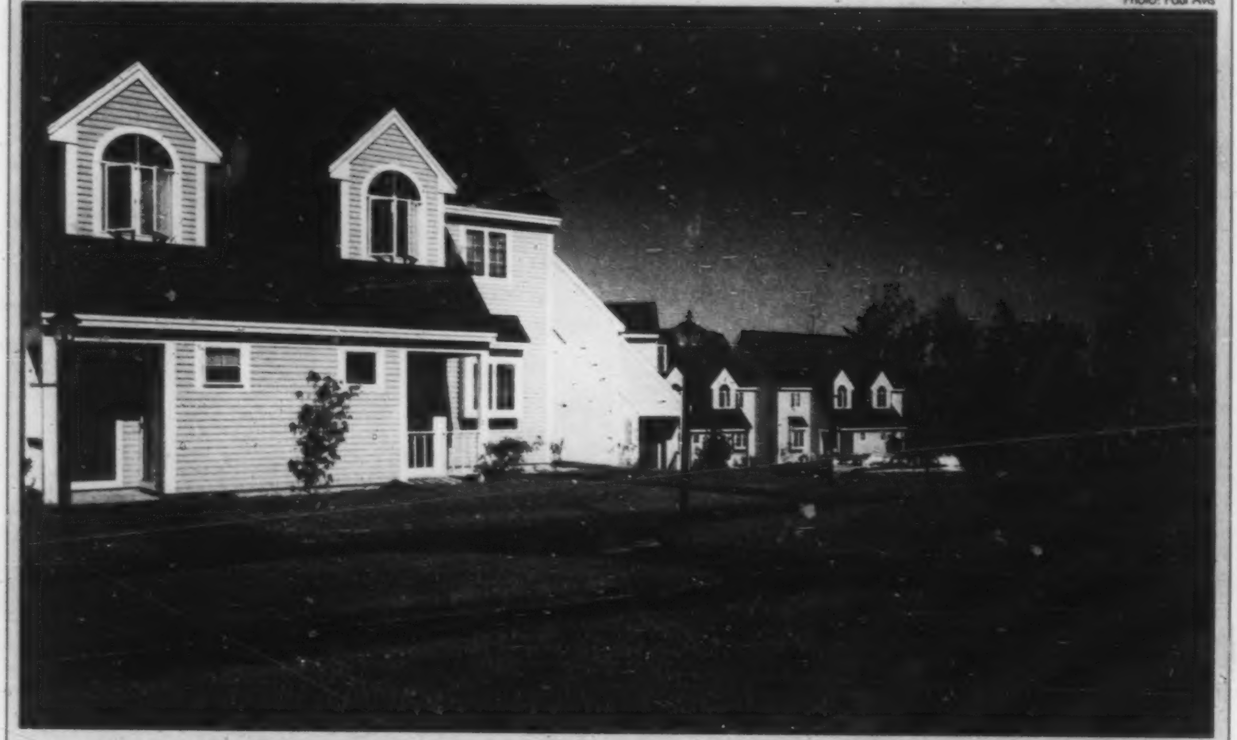
As is usual with a multifamily project financed by tax-exempt bonds, 20 percent of the units at Shenandoah are set aside for those earning less than 80 percent of median income. In Fairfax, that's a maximum of $26,000 a year. Where market rate for a one to three-bedroom Shenandoah apartment ranges from $525 to $695, the set-aside units range from $370 to $470. And, as is becoming increasingly common for projects financed by tax-exempt bonds, Oxford found the project had to include design extras that are not usually associated with low or moderate-income housing developments. For instance, all units have carpeting and decks or patios off the living room. Two-thirds of the units have fireplaces and many have bay windows. The building's exterior is beveled cedar siding and the project's entrance is lushly landscaped.

"Someone could argue this is too lavish for low and moderate-income housing, but in order to ask market rate rents that are high enough to subsidize the 20 percent set-aside units, you have to build amenities," contends Thomas Bozzuto, regional partner, Middle Atlantic Region for Oxford, a BUILDER 100 company based in Bethesda, Md.

The project, which began leasing in March, has been renting out at a rate of 52 units a month, considerably ahead of the usual healthy pace of 20 to 30 units a month. Renters of both the market rate and set-aside units are young professionals.

OLD NEW HAMPSHIRE HAD A FARM

Photo: Paul Avis



It doesn't look like a farmhouse or housing for farmhands, and it isn't. But Birchwood, a 32-unit project located in Hooksett, N.H., was financed with a Farmers Home Administration loan. Under its Section 515 program, FmHA makes direct mortgage loans for new or substantial rehab rental construction in areas where the population is less than 10,000. Hooksett, which sits midway between Concord, the state capital, and Manchester, the largest population center, qualified.

Utilizing FmHA's 1 percent, 40-year, $1.3 million loan, the Northeast Community Development Group, Concord, built Birchwood at a cost of $40,000 per unit. Rents for the one or two bedroom townhouses are $275 to $330 a month. Comparable rents are $500 to $550.

Occupancy in an FmHA project is limited to low and moderate-income families earning less than 80 percent of median income. Median income, as defined by FmHA, however, is much higher than other federal definitions, such as that used by HUD. Where HUD would limit tenancy to those at 80 percent of median income or, in Hooksett, $14,500, FmHA's 80 percent of median income maximum for Hooksett is $23,500. In addition, each tenant is allowed an additional $500-a-year income for every child in the family living in the unit. However, unlike other federally backed programs (such as tax-exempt bond financing or HoDAG) which allow 80 percent of units to be built for market rate renters and 20 percent set aside for low and moderate-income renters, FmHA demands that all the units be occupied by those meeting median-income requirements. Northeast hasn't had any problem finding appropriate tenants, many of whom work in either Concord or Manchester. The project was fully rented when it opened in April and maintains a long waiting list.

The eight, Cape Cod-like buildings were designed by Architects Four, Manchester, to fit into their New England setting. With a 32-acre site, much of which was unusable, and one-unit-per-acre zoning, Northeast had Matarazzo Design, Concord, develop the land plan, eventually approved by Hooksett authorities, to place 32 units on three-quarters of an acre and leave the rest of the land in its natural state.

if you don't do something about high interest rates and the unavailability of housing in appropriate locations."

Other critics point out that vouchers do nothing to maintain the quality of housing stock or bring more units up to standard. Also, though vouchers may work in markets where there is adequate stock, they tend to be unusable in areas where there are housing scarcities.

"Even on a regional basis, you may have vacant apartments in a middle-class neighborhood but low-income people can't move there—there's no public transportation to get them to their jobs or the grocery store, nor would they be accepted there," observes Robert Brehm, president of Bickerdike Development Corporation, a nonprofit community development company in Chicago.

But the deeper argument is over whether availability is a major concern and whether it is one the federal government should address. Certainly, the end of subsidized production programs combined with massive federal cuts in public housing construction and rehab programs at a time when the private sector is converting many low and moderate-income apartments into higher priced condos would seem to telegraph the disintegration of low-income housing stock.

NCHP's figures forecast the problem. Two years ago NCHP built 4,500 new units for low and moderate-income households and acquired 1,000 existing units for rehab; last year they built 1,000 new and acquired 4,500 rehab; this year they're not doing any of either for the low-income market. "Ninety percent of our development had been for low-income housing," Brady laments. "We've changed direction. I feel good about the company, but not about low-income housing needs."

NAHB's multifamily task force report cited a shortage of affordable, decent housing for low and moderate-income renters, a situation exacerbated by high interest rates, tax changes and a federal legislative climate that precludes construction. Thinking of the needs of individual cities like Los Angeles, Baltimore and New York, task force chairman Lester Day, president of American Diversified, a Costa Mesa, Calif., BUILDER 100 company, charges, "There's a crying need out there. It will become much more pronounced before the situation changes."

Critics of current policy suggest there may be a hidden cost to ignoring these unmet housing needs. Dan Grady, a San Diego builder who built more than 1,500 Section 8 units, sees scarcities decreasing the mobility and therefore increasing the concentration of poor and racial groups. "Eventually that will flow into de facto segregation in our schools, creating additional severe social problems."

In Brady's opinion, the government is not only turning its back on ensuring a supply; it has backed away from formulating a housing policy based on housing needs. Housing policy now is being hammered out in the wrong forum, he notes ruefully. "It used to be a deliberate, thoughtful process of the housing committees in Congress; now it's done in the dark of night by tax committees with no understanding of the development and maintenance of housing."

With Section 8 gone and HoDAG a small experimental

SCATTERED SITES ARE ON TARGET

New public housing projects are hard to find: Funding has dried up during the past three years. Nonetheless, the housing authority in Charleston, S.C., managed to wangle a direct loan from HUD to build 150 public housing units on scattered sites throughout the city's historic Radcliffeboro district. One good argument it had on its side: Low and moderate-income tenants had been displaced during revitalization activities in the area and these units would replace lost housing.

Because the units were going up in a historic district, Charleston's Board of Architectural Review, the State Archives Commission and the President's Advisory Council on Historic Preservation had to approve the design. Naturally, since the units were being built with federal funds, the project also had to meet federal design constraints and statutory cost limits.

Though built for only $27 a square foot, the Radcliffeboro buildings are compatible in design, attention to detail and density (12.6 per acre) with Charleston's 18th and 19th-century architecture. In fact the project won a design merit award from the Georgia chapter of the American Institute of Architects. One particular Charlestonian feature Atlanta-based architect Richard Bradfield picked up was the side porch entry with a second-floor balcony which makes the otherwise contemporary-looking buildings comfortable in their traditional setting. The porches offer privacy and permit cross ventilation in the narrow buildings.

The 690 to 1,280-square-foot units have been fully occupied since completion in September 1983. Rents for the one to three-bedroom units are set at 30 percent of an eligible tenant's income.

Scattered site is one of several development methods allowed within the present public housing construction program. Scattered site projects can be rehab or, as in this case, new construction; it can be turnkey, in which a builder builds the project and the local housing authority buys it, or developed by the housing authority which contracts the work out to a builder, as it was in this case, to Mitchell Construction Company, Vidalia, Ga.

Photo: Paul G. Beswick

LET'S MAKE A DEAL

Photo: Courtesy San Diego Housing Commission

In its undeveloped state, University Canyon didn't hold out much promise. The site was steep, landlocked, pocketed with gullies and located between exclusive single-family homes, low-rent areas and university grounds. However, because San Diego suffers from an intense housing shortage—1 percent vacancy rate—and an even more intense low-income housing problem, the San Diego Housing Commission offered to go an extra mile for a developer who could come up with a multifamily proposal that included subsidized units.

San Diego-based Collins Development's winning proposal combined a 120-unit, low-income project atop a broad hill with a 340-unit, upscale condo development downwind and across a shallow gully. The resulting project is a public-private joint venture in which post-development profits will be shared 40 percent public/60 percent private.

The builder took the pre-development risks and provided money for up-front expenses; the public sector's contribution came in the extras the housing commission provided to keep costs down and make the project feasible. Because the site was landlocked, the commission provided access by arranging a partial land swap with the nearby university. The commission then expedited processing, awarded Collins a 25 percent density bonus, helped in obtaining FHA insurance and issued tax-exempt bonds for financing. Also, the commission structured the low-income apartments on leased land so it could deliver land to the project at less than full market rate. This "write down" further helped meet affordable rent-level objectives.

The luxury condos, designed by Berkus Group Architects, Newport Beach, Calif., with a high-tech look, sold quickly at $107,000 to $129,000 for two and three-bedroom, 1,000 to 1,400-square-foot units. Yuppie buyers didn't mind—in most cases didn't question—the "public" housing across the way.

The subsidized units, while not as dramatic as the condos, were designed by San Diego architect Dale Naegle with a pleasant earth-tone stucco appearance. The one to three-bedroom, 635 to 1,050-square-foot units were the last Section 8 new construction project in San Diego. Ben Montijo, executive director of the commission, points out that the project could be done today utilizing local rent subsidies but, more important, the public's 40 percent share of the profits from the overall project will help finance or subsidize the rents on other public-private ventures.

program, what new low and moderate-income construction is going up is being financed by tax-exempt bonds issued by local housing authorities. By one estimate, these bonds are being used to finance more than half of all new apartment projects under way in the U.S. The interest savings on the tax-exempt bonds are passed on to builders who are then committed to setting aside at least 20 percent of their units for tenants earning less than 80 percent of median income. The lower interest rate helps keep down the overall cost of the project; rentals on the market rate units are usually adjusted to bring down the rents on the set-aside units. With the interest rate subsidy but without a Section 8-type rent subsidy, builders are reporting that they can no longer build for low-income tenants. The overwhelming majority of the 20 percent set-aside units are priced for those making the full 80 percent of median income. In a few jurisdictions where the rental market is strong and market rate rents high, builders are required to go below 80 percent. For example, in Montgomery County, Md., an affluent suburb of Washington, D.C., the Housing Commission requires set-aside units be priced for those earning 65 percent of median income.

In the majority of markets, however, the numbers don't allow that deep a rent cut—even when Community Development Block Grants or Urban Development Action Grants are available. In San Diego, reports Grady, it's impossible to get rents below $500, which requires an $18,000 to $20,000 income. "If you earn $15,000, you can't afford to live here."

His words are reiterated by the smaller-scale experience of Bickerdike. In order to turn a dilapidated house, which was donated to them, into six rental units, the community development company raised $20,000 in National Trust Inner City Venture Fund grants and loans, $85,000 in city grants and 3 percent loans and $35,000 in private investment. The company still was unable to bring rents down below $250 to $300 a unit, which was in excess of what neighborhood people could afford.

There are many who argue that moderate-income housing, which is served by tax-exempt bond financing, is where federal incentives and assistance should go. That is, as moderate-income needs are served, units trickle down to lower income tenants. Downs agrees, noting that trickle down has been housing people in this country for 200 years.

Phil Brownstein, Federal Housing Administration commissioner from 1963 to 1969, sees things differently. "Trickle down is feeding pigeons by feeding the horses. You have to work in both directions."

And soon even the moderate-income incentives may disappear. Tax-exempt bond financing is an endangered species as Congress and the administration key in on revenue enhancements by closing tax loopholes.

Given the present climate, George Brady probably is right when he predicts that "we won't get back to a commitment of housing for everyone in this century."

And yet, the life force goes on. With the housing monkey now on their backs, local jurisdictions are teaming up with community organizations and builders to explore the art of the possible. Some of the more interesting programs are:

■ Housing Trust Funds, the brainchild of David Rosen, an Oakland, Calif., community development consultant, would pool the short-term interest on real estate sale and mortgage escrow funds (interest which now goes to the bank) and use that interest to subsidize low-income housing. Each state must pass enabling legislation to set up the fund.

■ The Enterprise Foundation, the mission of James Rouse, founder of the Rouse Company, is establishing a nationwide network of neighborhood groups to provide housing (and other services) for low-income residents. Funds for the nonprofit foundation come from a for-profit development company which is wholly owned by the foundation.

■ Montgomery County, Md., which levies a 4 percent condo conversion tax, is investing the revenue and using the interest—about $3.2 million this year—to subsidize rents in projects financed by tax-exempt bonds.

■ Atlantic City, N.J., is using casino taxes to subsidize rents. The first project to utilize these subsidies is a $22 million, 314-unit apartment complex, the Lighthouse, which was financed by tax-exempt bonds and is a joint venture of NCHP with Friedberg Greene Enterprises and Sencit Development Company, both of Atlantic City.

■ San Francisco has an Office Housing Production Program which uses a complicated formula based on square footage and potential job profiles to determine how many housing units an office developer must supply and at what income level. The developer provides the housing or pays a fee.

■ The Massachusetts Housing Authority's SHARP (State Housing Assistance for Rental Production) program is an interest rate subsidy applied on top of tax-exempt bond interest savings to further lower rents on projects financed by Housing Authority-issued bonds. SHARP started this year with a $5 million appropriation from the Massachusetts legislature. To date SHARP has approved 23 rehab and new construction projects which should yield 2,000 units—25 percent of which will be set aside for low-income tenants.

■ The San Diego Housing Commission's executive director, Ben Montijo, takes the position that the help the commission gives builders—tax-exempt bond financing, writing down of land costs, density bonuses—is the moral equivalent of cash. Therefore, the commission should be a joint venture partner and participate in the appreciation or positive cash flow of a project (see page 116). Money thus raised—it will be $24 million by 1988, based on projects already under construction—will be used to bring down costs on other low/moderate income projects.

■ The National Urban Coalition, Washington, D.C., can't offer subsidies or financial backing, but they have organized the Community Information Exchange, which has a computerized listing of low/moderate income projects that have been built using a variety of creative approaches. The service puts neighborhood organizers, community developers, city officials and builders in touch with each other.

No one pretends these attempts are anything more than what Brady calls "bites and nips" at the problem. There still is a question, he says, of whether "the totality of what's being tried has any real impact on need." And yet, if these efforts aren't made, it will be a long hard—and for many, homeless—wait till the pendulum swings back.

BUILDER

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VOLUME 8, NUMBER 3 ■ MARCH 1985

BUILDER

COLUMNS

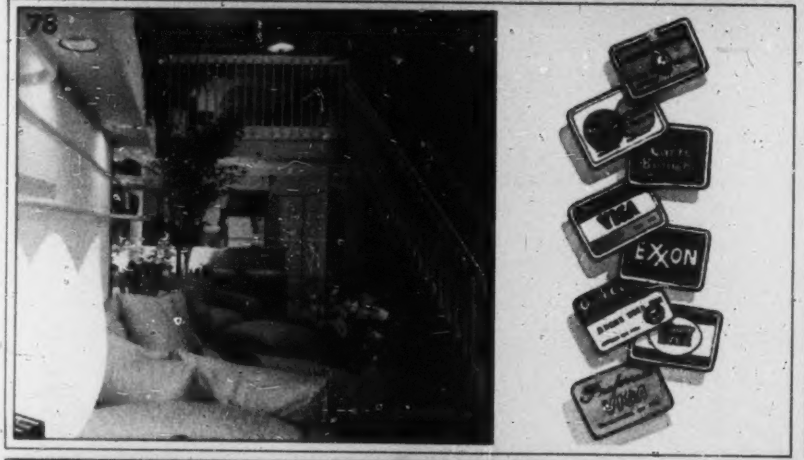
5 About Building
18 Money
22 Washington
26 Marketing
30 Strategy

DEPARTMENTS

11 Outlook
112 Sketchbook
116 Shoptalk
119 NAHB Report
128 New Products
138 Product News
143 Ad Index
144 Mail

NEWS

34 Mortgage insurers crack down on high ratio mortgages
34 Show attendees expect a repeat performance
35 OMB takes another shot at housing
38 The well-heeled line up for $600,000 homes
42 Seeing is believing: Video sells new homes
46 Popularity of ARMs falls with interest rates
46 New York group helps house middle class
50 Utility comes up with powerful plans
54 $100,000 the magic number for move-ups
54 Housing's pulse to quicken, says poll
58 This man's home is his work
62 Move-up housing made its move last year
62 Custom home buyers get a taste of home
66 Freddie Mac eases ARM guidelines
70 Proposed budget cuts subsidized housing
74 Bridge loans help move-up buyers move



78—WHERE THE YUPPIES ARE

Yuppies—young urban professionals—are so hungry for status they'll pay $1.50 for a designer chocolate chip cookie. Which makes them the butt of jokes. But couple that status consciousness with their affluence and yuppies emerge as the sonic shock wave of the baby boom and an important market for builders.

(Cover: Players Place, North Lauderdale, Fla. Photo: Tom Knibbs)

94—FIVE-YEAR LOCAL FORECAST

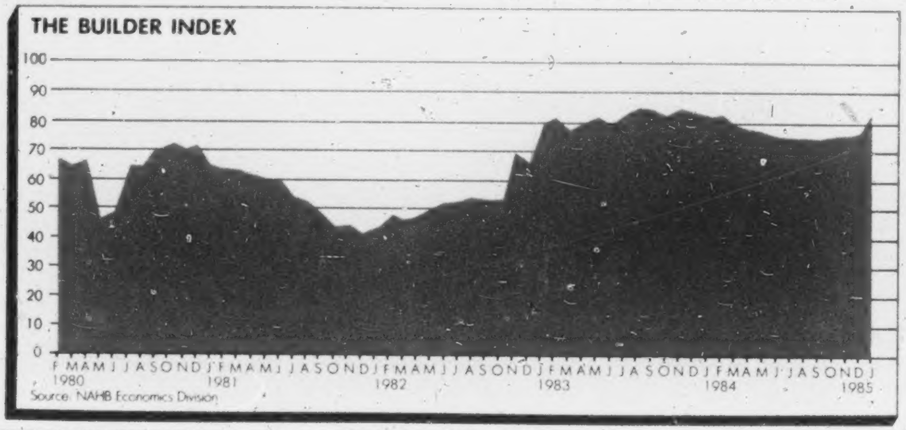
A housing forecast with a twist. Prepared by NAHB's economics division, it not only projects total annual housing starts through 1989, it also provides a five-year market-by-market starts forecast for the top 94 housing markets.

106—PROJECT OF THE MONTH

Robert Schulman had a bold idea: build 44 super-high-priced spec homes in suburban New York for super-successful empty-nesters.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

The BUILDER Index continued to climb in January, reaching 81.70, a reflection of builders' high expectations for the months ahead.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Rolling On

Michael Sumichrast
NAHB chief economist, Washington, D.C.

The housing recovery seems likely to continue this year then into 1986. This optimistic forecast is supported by better than expected overall economic growth as well as reasonably stable and somewhat lower interest rates.

Housing starts should reach a level of 1.62 to 1.65 million this year, and decline only slightly to 1.5 million units next year. The economy in general should improve after a pause in the third quarter of 1984, when the GNP grew at only 1.6 percent. The fourth quarter flash estimate shows 2.8 percent growth already, and this improvement should continue this year, with the first half of the year particularly strong.

The fear of recession has all but disappeared. A recent survey by the Monetary Policy Forum, a group of 30 distinguished financial analysts, has downgraded the chance of a recession in the next six months to only 28 percent, compared with the 40 percent registered a month earlier. The 12-month outlook also improved, with the chance of recession dropping from 55 percent to 40 percent.

The accompanying table shows some of the data the NAHB econometric model uses to forecast housing starts each month.

In 1986 the model shows economic growth slowing from 3.1 percent (this year) to about 2.2 percent. The unemployment rate is projected to increase slightly to 7.6 percent. Personal savings will improve marginally, while the inflation rate will remain relatively low.

The forecast calls for all interest rates to rise next year. The prime rate should average about 11 percent this year—the low will be 10.25 percent—and close to 12 percent in 1986. Mortgage rates will continue to ease through the first part of this year, declining about another 100 basis points, before increasing to 13.75 percent by the end of the year then peaking at 14.25 percent in

CONTINUED ON PAGE 13

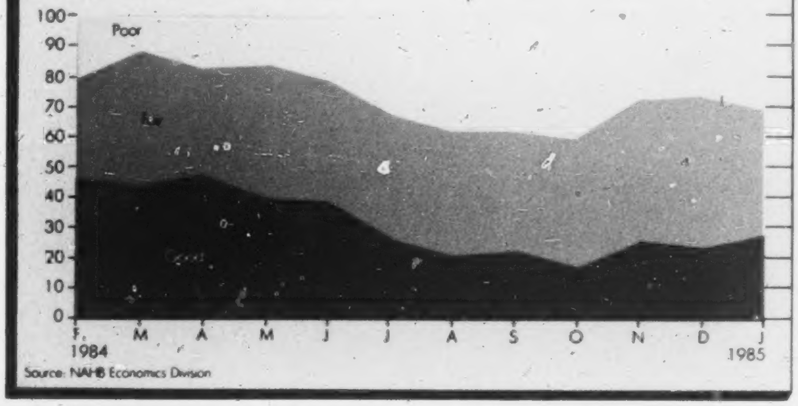
ECONOMIC ASSUMPTIONS: HISTORICAL AND FORECAST, 1983-1986

Economic indicator	1983	1984	1985	1986
AAA bond yields	12.04%	12.74%	11.39%	12.38%
"T" bill yields	8.62%	9.57%	7.93%	9.13%
Prime rate	10.80%	12.13%	10.94%	11.88%
Mortgage rate	13.53%	14.38%	13.30%	14.00%
FHLBB advances (mill)	−$7,060	$15,051	$ 6,000	$10,500
FNMA purchases (mill)	$17,558	$ 3,769	$14,100	$16,500
CPI	3.0%	3.5%	4.5%	5.0%
Personal income	16.2%	9.8%	7.4%	4.7%
Personal savings	−13.2%	33.9%	8.9%	10.5%
Savings as percent of PI	4.3%	5.2%	5.3%	5.6%
Unemployment rate	9.6%	7.5%	7.5%	7.6%
Subsidized units	33,592	3,195	0	0
Real GNP	3.7%	6.7%	3.1%	2.2%

Source: Government agencies; compilation by NAHB Economics Division

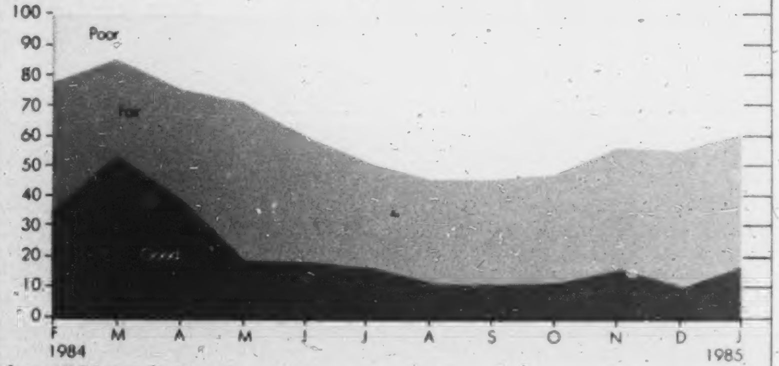
OUTLOOK/BUILDER POLL

CURRENT SALES
(new single-family detached homes in percent)



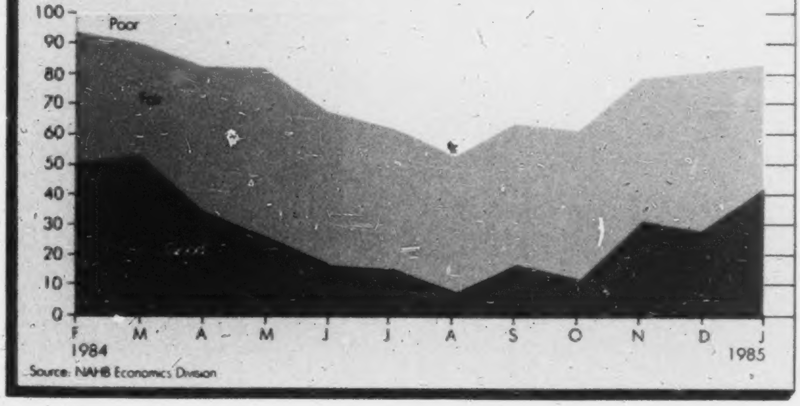
Source: NAHB Economics Division

CURRENT TRAFFIC
(all new homes in percent)



Source: NAHB Economics Division

6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)



Source: NAHB Economics Division

NEW-FOUND OPTIMISM

For the third consecutive month buyer traffic, current home sales and builders' outlooks for the next six months improved substantially, signaling a definite end to a six-month gradual decline that began last spring. That according to the January BUILDER Poll.

While traffic (middle chart) and current sales (top chart) definitely improved, they still lagged behind levels of a year ago. Builders' expectations (bottom chart), on the other hand, are almost as high as they have been any time during the last two years.

Some 43 percent of those surveyed anticipate good sales in the six months ahead, up from 28 percent just a month earlier. Just as significant, only 16 percent expect a poor market, down from a peak of 47 percent five months ago.

Builders' comments reflect this new-found optimism. "Activity is very good, with plenty of buyer interest. I'm starting a new single-family subdivision as soon as I get my approvals," said a builder from Michigan. "Prospects are looking and buying," said a North Carolina builder.

Finally these comments from a Florida builder: "Potential buyers are encouraged by falling interest rates. All in all they have a new optimism about the economy."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

EXISTING HOME SALES GAIN . . .

Existing home sales improved more than new home sales last year. New single-family sales increased 2.6% in 1984 to 639,000 units. Sales were up in all regions except the South, where sales declined 4%. At the same time, existing home sales grew by 5.5% to nearly 2.9 million.

BUT PRICES RISE LESS

For the fifth year in a row, existing home prices failed to keep up with the inflation rate, rising only 3.6% last year versus a 4.3% increase in the Consumer Price Index. By contrast, the median sales price of new single-family homes advanced 6% from the year before to $79,900 in 1984.

VACANCY BUILDUP

The national vacancy rate for downtown office buildings rose from 3.8% in March 1981 to 14.2% in the third quarter of 1984, according to Coldwell Banker. The vacancy rate for suburban office space is even higher—nearly 18%.

APPRAISING BUY-DOWNS

New home appraisals could be reduced when builders buy down the mortgage rate under new appraisal guidelines being considered by the Federal National Mortgage Association (Fannie Mae), and that would put new homes at a competitive disadvantage with existing homes. Fannie Mae is contemplating such action because it doesn't like the idea that the cost of buy-downs may be added to the home's sales price, resulting in a higher appraisal. "The current valuation theory which permits the appraised value to be a most probable selling price which includes the cost of subsidized financing is simply not acceptable," according to Fannie Mae. The agency acknowledges, however, that it would be very difficult for appraisers to determine whether comparable properties included financing costs in the sales price.

FASTEST GROWING STATES

The U.S. population grew by 9.6 million, or 4.2%, in 1980-84, the Census Bureau reported. The South and West regions registered 91% of the gain. The 10 fastest growing states during the period were Alaska (+24%), Nevada (+14%), Utah (+13%), Florida (+12.6%), Texas (+12.4%), Arizona (+12.3%), Colorado (+10%), New Mexico (+9.3%), Oklahoma (+9%) and Wyoming (+8.9%).

THRIFTS FALTER

The financial state of the nation's thrift institutions during the third quarter of 1984 dropped to its lowest level since 1982, according to statistics announced recently by the Federal Home Loan Bank Board. Some 31% of all FSLIC-insured institutions lost money during the period, up from 24% the previous quarter. The reason: rising interest rates earlier in the year increased the industry's cost of funds. The cost of funds increased 47 basis points to 10.27% while mortgage portfolio yield rose 11 basis points to 11.76%, leaving a spread of 1.49%.

BUILDING BOOM

Construction contracting set a record last year. The total value of new construction started in 1984 hit $210 billion, up 8% from 1983's previous high, reported the F.W. Dodge Division of McGraw-Hill Information Systems. Last year's growth was fueled by a 24% surge in commercial and industrial building. The value of residential building contracts, which led the expansion in 1983, grew 8% last year to nearly $101 billion. "Most conditions are favorable for another big year for the building industry in 1985," says Dodge chief economist George Christie, but a major risk is "the possible collapse of the office building boom."

FOR RENT

The national apartment rental vacancy rate jumped to 6.3% in the fourth quarter of last year from 6% in the third. That's a hefty increase from the 5.5% vacancy rate recorded a year earlier.

BEST SINCE 1979

At 1.75 million units, 1984 was the best year for housing starts since 1979. Starts were up 2.5% from 1983, but most of the increase was in the multifamily sector where starts advanced 5% to 665,000. Single-family starts rose 1% to 1.08 million. Regionally, the South continued to produce the most new housing though starts there declined 8% last year. The Northeast improved the most, up 21%, followed by a 14% rise in the West and an 11% increase in the North Central.

CONTINUED FROM PAGE 11

the second quarter of 1986.

The greatest risk to the economy is the proliferation of debt. Total debt is growing much faster than the total growth of the economy. Last year the credit market debt grew by $7.2 trillion, while the nominal GNP grew by only $3.7 trillion.

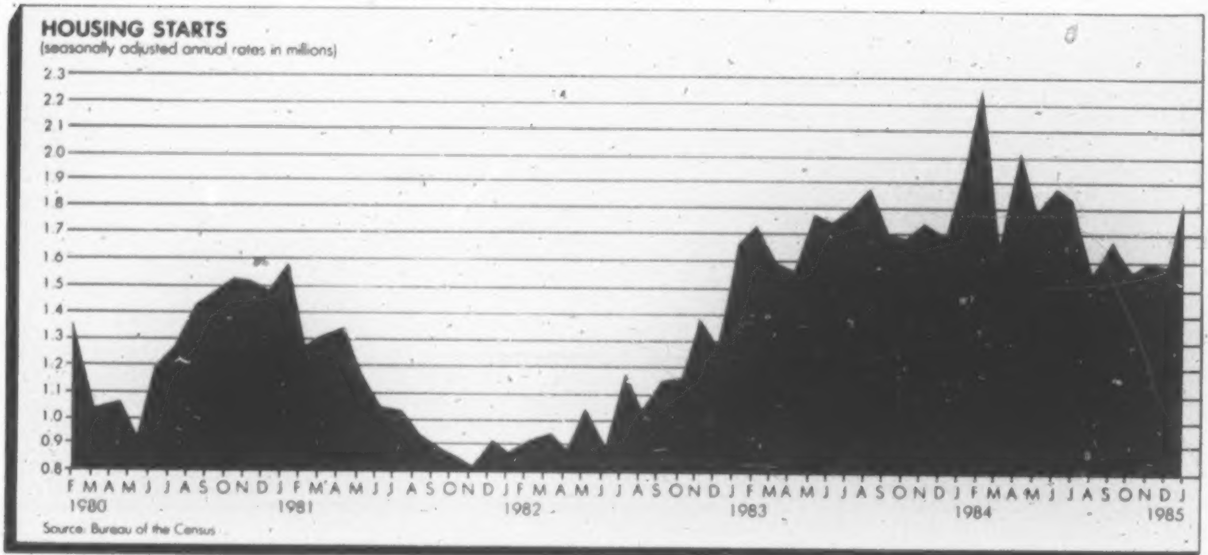
Wall Street economist and interest rate guru Henry Kaufman recently made a point about this, saying "these numbers understate the actual size of the debt market because there is an expanding hidden debt for which no data is available. This includes futures, options, interest rate swaps, currency swaps, credit guarantees by banks and insurance companies and firm lines of credit."

This debt structure consists of private as well as government demand. In the past 20 years, when debt has increased sharply, the federal government's share has gone from 2 percent annually in the 1960s to nearly 16 percent annually in the past five years.

How seriously should these forecasts be taken? Well, a year ago we said total starts for 1984 would be 1,754,200 units. The preliminary figure for 1984 shows a total of 1,744,700 units. That's 9,500 units less than we forecast—an error of 0.5 percent.

Probably no one came closer. In fact, I doubt that we will ever be that accurate again—or that lucky.

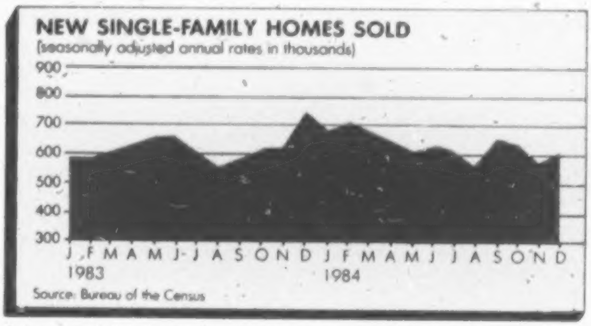
OUTLOOK/STATISTICS



HOUSING STARTS
(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

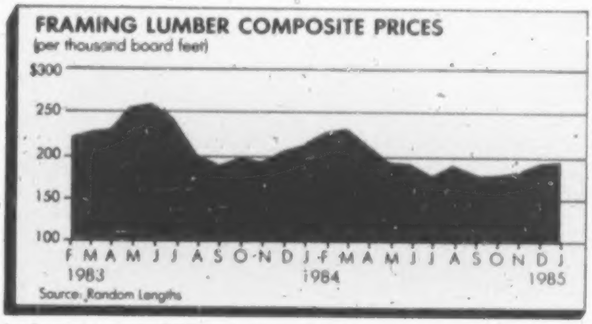
Starts jumped 15% in January to an annual rate of 1.83 million, the highest level in six months. Multifamily construction, which shot up 76%, accounted for the increase, as single-family starts actually dipped 4% to 1.04 million.



NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

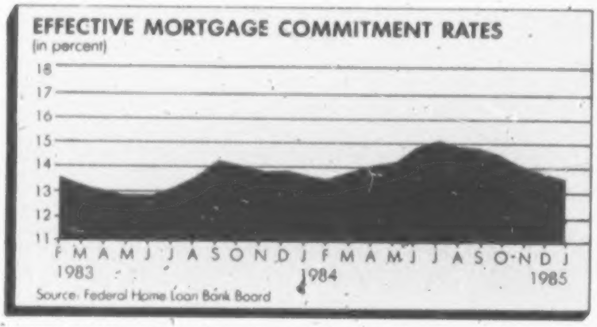
Sales rose 3% in December to an annual rate of 606,000 after falling 9.8% (revised) in November. December sales were nearly 20% lower than the steamy pace of a year earlier.



FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

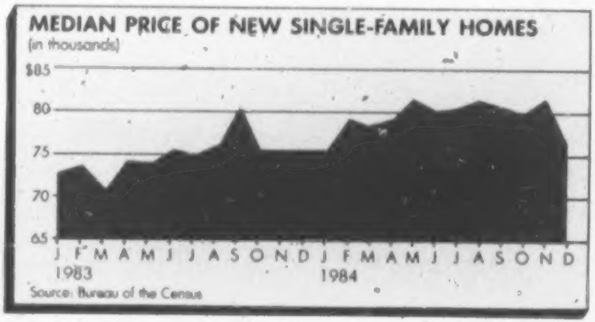
Lumber prices rose 1.5% in January to $199 per thousand board feet. Although it was the third straight monthly increase, the January price was still 6.6% lower than a year earlier.



EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

Source: Federal Home Loan Bank Board

Mortgage rates continued downward in January. Fixed rates declined 10 basis points to 13.67%—the lowest level in nearly a year. Uncapped adjustable rates fell 34 basis points to 11.80%.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median sales price of new single-family homes dropped 7%, or $6,000, in December to $76,300. The December price was $400, or 0.5% higher than a year earlier.

NEWS

MARKETING

MOVE-UP HOUSING MADE ITS MOVE LAST YEAR

Trade-up housing gained some ground last year.

Repeat home buyers increased their share of the housing market to 62 percent, up from 60 percent in 1983. That according to a survey of 11 representative metropolitan housing markets by Chicago Title Insurance Co.

Among new home buyers only, the proportion of trade-up buyers increased more dramatically, rising to 60 percent of the market between July 1983 and June 1984 from 52 percent during the same period a year earlier. That finding comes from a survey by NAHB's economics division of buyers of new homes insured by the Home Owner's Warranty Corp.

Chicago Title's survey of buyers of both new and existing homes also found that median household income for repeat buyers increased 9.4 percent in 1984 to $42,200. At the same time, the median home price for repeat buyers slipped slightly from $100,800 to $100,400 although higher interest rates and lower down payments pushed average monthly mortgage payments up 4.7 percent to $907.

As a result, the average monthly mortgage payment as a percentage of household income dropped for repeat buyers from 32 percent in 1983 to 28 percent last year.

It was a different story for first-time buyers. According to Chicago Title, the median home price for that group rose 11.5 percent to $81,500, and average monthly mortgage payments shot up 16 percent to $810. At the same time, median household income increased by a modest 6 percent to $35,070.

Consequently, first-time buyers spent a slightly higher proportion of their income for mortgage payments—33.7 percent, up from 33.4 percent.

Part of the increase in household income last year was due to a falling unemployment rate and a rise in two-income families. Among married repeat buyers, the percentage of two-income households jumped to 69 percent from 60 percent in 1983. However, the proportion of dual-income households slipped slightly for married first-time buyers—to 86 percent last year from 87 percent in 1983.

Both repeat and first-time buyers made lower down payments last year. The average down payment for repeat buyers dropped from 27.8 percent of the selling price in 1983 to 25.6 percent last year. Meanwhile, down payments by first-time buyers fell to 13.2 percent from 15.7 percent.

NAHB's economics division found similar patterns in its survey of new home buyers. While the proportion of first-time buyers declined last year from its all-time high of 47.7 percent recorded in the July 1982-June 1983 period, it still was substantially above levels in the late 1970s (see chart).

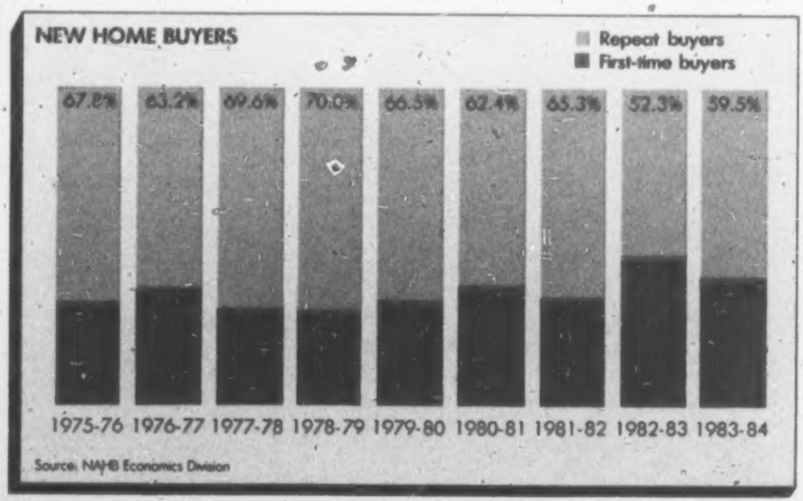
NAHB also found significant—but not unexpected—differences between first-time and repeat buyers of new homes. Among other things, trade-up buyers were older and far more likely to have children than first-time buyers.

About two-thirds of trade-up buyers were couples with children versus 44 percent of first-time buyers. Married couples without children accounted for about 40 percent of first-time buyers, but only 25 percent of repeat buyers. Some 13 percent of first-time buyers were single, but singles accounted for only 4 percent of repeat buyers.

As for age, first-time buyers were relatively younger with a median age of 30 versus 35 for repeat buyers. Repeat buyers also made more money. They had a combined income of $43,590 compared with $34,755 for first-time buyers.

Another finding: First-time buyers were more likely to purchase homes close to where they already lived. Some 62 percent of that group bought within the same county versus 46 percent of trade-up buyers.

Carol Anderson



Source: NAHB Economics Division

MARKETING

CUSTOM HOME BUYERS GET A TASTE OF HOME

If you can't touch it, you won't buy it. That's the marketing creed of Marvin Ausherman, vice president of Ausherman Construction Company, and he's built a small sales village to support it.

The Frederick, Md., builder has created an alternative to the usual model home with his Custom Home Center, four "idea houses" ringing a cul-de-sac.

The custom-home builder created the center to give prospects—many of whom live in production housing—some sense of what their budgets will buy. "These are not the typical 'what you see is what you get' model homes," says Ausherman. "We've loaded them with features to give prospects a chance to touch and feel them, and to see them full scale. But all of our features are 100 percent interchangeable. We'll build anything a client wants."

Currently Ausherman is building eight single-family subdivisions near

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ARMs that didn't conform to these guidelines for rate and payment caps and ARMs with initial rates set more than two points below the indexed rate without the specified rate caps had to be underwritten at the more conservative housing expense-to-income ratio of 25 percent and total debt-to-income ratio of 33 percent.

Last summer's guidelines also restricted the maximum loan-to-value ratio to 90 percent for certain ARMs with the potential for negative amortization, including ARMs with a graduated payment feature and those with both a discounted initial rate or buydown greater than two points and a payment cap.

The new guidelines announced in February loosen many of those restrictions.

ARM borrowers now can be qualified at a discounted or bought-down initial rate up to two points below the fully indexed rate—but only if the loan-to-value ratio is 90 percent or less. Borrowers of 95 percent ARMs and graduated payment ARMs still must be qualified at the indexed rate.

In addition, maximum rate and payment adjustments have been doubled. For a one-year ARM, for example, the rate cap is now two points a year and the payment cap is 15 percent. However, high ratio ARMs are penalized once again. They must be underwritten at the stricter 25/33 percent ratios when the adjustment period rate cap exceeds one point or the periodic payment cap exceeds 7.5 percent.

The revised guidelines also restrict fixed-rate GPMs: the maximum loan-to-value ratio is 90 percent and scheduled payment increases cannot exceed 7.5 percent a year.

In addition, the amount of negative amortization allowed on any loan is now 100 percent of the home's appraised value. However, Freddie Mac says its mortgage purchase programs—at least for the time being—will continue to allow negative amortization up to 125 percent of the original mortgage amount, which is the industry standard.

Carol Anderson

HUD SUBSIDIZED HOUSING PROGRAM LEVELS FOR FISCAL YEARS 1980, 1985, 1986

	Fiscal year 1980	Fiscal year 1985	Proposed fiscal year 1986
Section 8[a]			
Section 202/new construction/substantial rehabilitation units	115,198	11,617[b]	0
(Section 202 units)	(20,440[a])	(11,617[a])	0
Moderate rehabilitation units	40,000	5,000	0
Existing housing units	47,022	37,500	0
Conversion/property disposition/loan management units	—	32,000	11,000
Housing vouchers, units	—	40,849	3,500
Public housing units (new)	38,172	5,000	0
Rental housing development grants, units	—	16,000	0
Rental rehab program, units	—	31,000[c]	0
Total units	**240,392**	**178,966**	**14,500**

[a] All Section 202 units are subsidized through Section 8 and are included in the totals for Section 8 new construction/substantial rehabilitation.

[b] All units under this category will be made available through the Section 202 program for the elderly and handicapped.

[c] All units in this category receive vouchers or Section 8 Existing Certificates.

Source: Department of Housing and Urban Development

GOVERNMENT

PROPOSED BUDGET CUTS SUBSIDIZED HOUSING

Federally subsidized housing programs would be virtually shut down under President Reagan's recently proposed budget for fiscal year 1986 which begins in October. The budget allows for funding only 14,500 subsidized units, down from almost 180,000 in fiscal year 1985 and 240,000 in fiscal year 1980.

In effect the administration is proposing a two-year moratorium on additional federal housing assistance.

The Housing and Urban Development (HUD) budget cuts off funds for the Section 202 program which finances construction of rental units for the elderly and handicapped, construction of new public housing units, Section 8 moderate rehab and the new rental rehabilitation and rental housing development grant programs.

The Urban Development Action Grant (UDAG) program, which received $440 million for this year, also would be axed, and Community Development Block Grant (CDBG) funds would be cut 10 percent from the current $3.5 billion level. What's more, CDBG funds would be shifted to rural areas, resulting in a 24 percent decline in funding for cities with more than 50,000 people.

In addition, the HUD budget comes close to killing off Secretary Samuel Pierce's much-touted rental housing voucher program, which was intended to replace the Section 8 program. The voucher plan, still in its demonstration phase, would be cut from 41,000 units this year to a paltry 3,500 in 1986. And the number of rental units subsidized under the Section 8 existing housing program would drop from 37,500 to zero.

The total number of HUD-assisted units would plunge from 179,000 this year to 14,500 in 1986.

The Farmers Home Administra-

CONTINUED ON PAGE 74

CONTINUED FROM PAGE 70

tion would feel the budget ax too. Rural housing programs would be virtually wiped out, and what's left would be transferred to HUD within two years.

The new FmHA budget eliminates loan funds for the Section 502 low-income homeownership program and requests only $30 million to repair existing 502 units. That compares with $2.3 billion appropriated this year for 502 loans and repairs.

In addition, the budget requests only $50 million for Section 515 rental assistance, down from $168 million appropriated for this year.

In the words of FmHA, "Rural housing programs will be terminated in 1986," except for the two aforementioned budget requests.

That is what the administration is proposing. Whether Congress goes along is another story. NAHB and other housing groups are gearing up to oppose the deep cuts. It's the first time since the Reagan administration started cutting subsidized housing programs that builders seem prepared to do battle.

After getting a preview of the HUD budget at the NAHB convention from Shirley McVay Wiseman, HUD's general deputy assistant secretary, Houston builder Ted Dinerstein commented, "We're not giving the people who need help out there any alternatives. It's scary."

Another builder told Wiseman, "You and HUD have the charge to do something positive for low-income people. But I don't see anything positive coming out."

Wilmington, Del., builder Marvin Gilman noted that NAHB originally opposed the concept of rental vouchers in part because they could be shut off so easily. "And that's what's happening."

Wiseman responded to the criticism by saying, "The budget isn't set in concrete." However, she conceded that "in effect, we're looking at the last go-round for Section 202," HUD's only remaining production program.

Another group upset about Reagan's housing budget is the Washington, D.C.-based National Low-Income Housing Coalition. Its president Barry Zigas called it "a total repudiation of a 50-year bipartisan commitment to the goal of a decent home in a suitable living environment for every American. With homelessness rising all across the country, it would be an act of willful neglect for Congress to approve this budget."

Carol Anderson

MARKETING

BRIDGE LOANS HELP MOVE-UP BUYERS MOVE

A Morristown, N.J.-based real estate firm which handles sales for nearly 120 subdivisions in the New York metropolitan area is successfully using a combination of bridge and equity access loans to snare move-up buyers who fear they will have to close on their new homes before they sell their old ones.

Weichert Realtors, which has an annual sales volume of more than $2 billion, offers its unusual Equity Advance Program to any buyer who lists his house for six months with any broker and buys a new one through one of its 97 offices in New Jersey, Pennsylvania, New York and Connecticut.

Typically, buyers turn to bridge loans only as a last resort when they need the proceeds from the sale of their present residence to settle on their new one. In most cases, settlement on the old home has been delayed beyond the date on which they close on the new one.

Buyers can sometimes secure bridge loans if they still haven't sold their old homes, but lenders usually require that the house be sold to a buyer who has a loan commitment before the funds are released.

Weichert, on the other hand, will get loans for its buyers even if they have not sold their homes. The company's two lenders, Chatham Trust Co. in Chatham, N.J., and Marine Midland Bank of White Plains, N.Y., will advance funds based on the equity the seller has in the house, even if it is listed for sale by another broker or is located elsewhere in the country.

The one-year loans, which are renewable for 90-day periods thereafter, carry an interest rate 1 percentage point above the lender's prime rate. Borrowers pay interest only until they settle on the old house, at which time principal and interest on the loans are paid in full. There is a $150 application fee but no points are charged.

Equity Advance loans, which were introduced in the mid-1970s and now are made at an average of about 65 a month, "relieve buyers of one of their worst fears, closing on a new house before the old one is sold," says Betty Robinson, manager of Weichert's Caldwell/West Orange (N.J.) branch. "That's very appealing, especially to those who are faced with the complexities of selling a house in another city."

The loan also appeals to move-up buyers who don't want to liquidate their other assets to come up with a down payment, reports John Joyce, Weichert's mortgage information coordinator. Buyers moving into or within the firm's market area are eligible for advances of up to 80 percent of their listing price, less any encumbrances.

(Equity Advance loans also are made available to persons who are moving out of state and selling their homes through Weichert. But sellers leaving the area are loaned only up to 70 percent of their selling price.)

According to the realty firm, more than 95 percent of the buyers and sellers who apply for the loans are approved and virtually all have repaid the loans on time. The firm takes anywhere from 60 to 120 applications a month for equity advances. In the first 10 months of 1984, 650 had been approved.

"We think it's a super idea," says Stanley Berkowitz of the Jack Parker Corp., which is using Weichert for the first time at its 433-unit Eagle Ridge townhouse development in West Orange, N.J. "The concept impressed us and it's one of the main reasons we went with them."

As Berkowitz sees it, the Equity Advance program "takes the pressure off buyers looking to upgrade. They know that if they can't sell their present home right away, they won't end up with two houses."

Lew Sichelman, a contributing editor to BUILDER

FIVE-YEAR LOCAL FORECAST

PENELOPE LEMOV, BUSINESS EDITOR

Most home builders follow national housing starts, but those aren't the figures that help them plan their business year. When national starts are booming, their local markets may be busts. On the other hand, during downturns, their markets may fly high. For example, while national starts are forecast to average a modest 1.5 million annually in the five years ahead, Charleston, S.C., is forecast to have 59 percent more starts on average in the next five years than it did in the previous five-year period. But starts in St. Louis are forecast to drop 15 percent during the next five years.

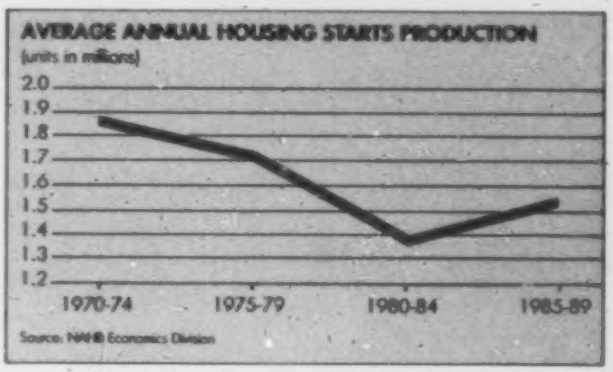
Because no one market controls the industry or its future, this five-year forecast, prepared by the NAHB economics division in conjunction with the association's long-range planning efforts, keys in on 94 major local markets. The forecast gives a projected average of annual starts over the five-year period of 1985-89, and compares that with three previous five-year periods (1970-84). It compares what has happened with what NAHB economists believe will happen in the next five years in such big markets as New York City (building 7.1 percent less units in 1985-89 than in 1980-84), Dallas (building 29 percent less), Detroit (steady at 1.9 percent more than in 1980-84) and Phoenix (also steady at 1.7 percent growth) as well as in such smaller markets as New Haven, Conn. (building 34.9 percent more), Gainesville, Fla. (building 11.7 percent less), Akron (steady at 0.4 percent decline) and Bakersfield, Calif. (booming ahead at 50.2 percent more starts).

In making their predictions for percentage of change in a particular market, NAHB's economists relied on both the hard facts of permits, population change and household formation and on other information gleaned through discussions with builders and marketing experts in particular markets.

Some of the trends that emerge from a study of the local five-year forecast are:

- Regionally, the Northeast will be strongest with 29 percent more starts forecast in the next five years than in the previous five years, but the big local market winners will continue to come from the Sunbelt and the West.
- Several cities that had seen boom times—Denver, Houston, San Antonio, Miami—will not sustain their high-flying paces. However, several second-tier Sunbelt cities—cities that had been ignored in the first flood of attention to the Sunbelt—will take up the slack. This would include cities such as Memphis, Charleston, S.C., Daytona Beach, Fla., El Paso, Tex., Albuquerque and Tallahassee, Fla. Among the major markets, the highest flyers will be San Diego (up 63 percent), Anaheim, Calif. (up 25.3 percent), Fort Lauderdale, Fla. (up 30.8 percent), Philadelphia (up 22.7 percent) and Atlanta (up 23.6 percent).
- Most of the big losers will be concentrated, as they were in the first half of the 80s, in the Midwest "rust belt." As a region, Midwest will be down 1.8 percent, the only region expected to decline in the next five years. Unemployment problems continue to drain the vitality of many cities like Flint, Mich. (down 38.8 percent) and Toldeo (down 30.9 percent).

For those who keep a wary eye on national starts, NAHB's economic forecasters have modified good news: For the five-year period 1984-88 (the most current half-decade available) housing starts should average 1.5 million a year as compared with 1.4 in the previous five-year period (which included the recession years from 1980 to 1982.) As the forecasters see it, 1985 should clock in with 1.5 million but a recession in 1986 and 1987 will mean 1.2 and 1.3 million starts, respectively. The light at the end of this tunnel is 1988 bursting with 1.8 million starts.



Source: NAHB Economics Division

In compiling predictions for the national five-year forecast, NAHB's economists projected a generally more robust and inflation-free economy. They based their forecast on the following assumptions:

- GNP will average 2.4 percent annual growth, up from 1.1 percent during the previous five-year period;
- Real per capita disposal income will increase an average 2.6 percent annually, a significant improvement over declines in the previous five years;
- Inflation will stay under control and the Consumer Price Index (CPI), which averaged 8.5 percent annual increases during the previous five-year period will average 5.1 percent between now and 1988;
- Unemployment will be close to what it has been, averaging about 8.1 percent; and
- Interest rates will continue to remain high by historical standards, but they will be lower than they were during the previous period. Long-term rates (represented by bond yields) should be about the same as the previous period—about 12.2 to 12.3 percent,—but short-term rates (represented by the prime rate and Treasury bills) are expected to average 11.7 percent and 9.4 percent, respectively. In the previous period they had averaged 14.5 and 11 percent, respectively.

Neither the local nor the national forecast assumed a flat tax plan or elimination of tax-exempt bonds as a means of financing multifamily housing. Should either or both of these events take place, starts—in particular, multifamily starts—would be down 100,000 to 200,000 units.

On the more positive side national starts break down accordingly: Single-family will go from an average of 896,000 in 1979-83 to 961,000 in 1984-88, a 7.3 percent increase. Multifamily, without any tax problems, will go from averaging 481,000 starts annually to 549,000, a 14.1 percent increase. Overall, multifamily will increase its share of starts from 35 percent to 36.2 percent in the next five years.

The following table shows the forecast for 94 markets arranged alphabetically by region. The accompanying stories highlight one market that's expected to boom, another that's likely to be a bust, a third that will hold steady and a fourth that looks like a sleeper.

National housing starts are a benchmark for the economy in general and the industry in particular. But housing is a local business. This five-year forecast takes a look at which markets are destined to boom, which will slip and how the second half of the 80s shapes up on local levels.

METRO ESTIMATES AND FORECASTS, 1970-1989, ANNUAL AVERAGES

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
NORTHEAST					
Boston					
Total	**13,381**	**9,057**	**7,285**	**8,000**	9.8%
Single-family	3,407	4,543	3,947	5,000	
Multifamily	9,974	4,514	3,338	3,000	
Buffalo					
Total	**6,482**	**3,438**	**1,407**	**1,300**	−7.6%
Single-family	3,630	2,594	1,169	1,100	
Multifamily	2,852	844	238	200	
Harrisburg, Pa.					
Total	**2,399**	**2,169**	**1,299**	**1,500**	15.5%
Single-family	1,144	1,374	988	1,000	
Multifamily	1,255	795	311	500	
Hartford, Conn.					
Total	**4,600**	**3,284**	**3,179**	**4,000**	25.8%
Single-family	1,979	2,382	2,346	2,800	
Multifamily	2,621	902	833	1,200	
Nassau-Suffolk, N.Y.					
Total	**—**	**—**	**5,357**	**5,500**	2.7%
Single-family	–	–	4,107	3,700	
Multifamily	–	–	1,250	1,800	
Newark, N.J.					
Total	**4,899**	**5,358**	**3,952**	**4,200**	6.3%
Single-family	2,284	2,936	2,747	2,700	
Multifamily	2,615	2,422	1,205	1,500	
New Brunswick, N.J.					
Total	**2,503**	**2,902**	**3,664**	**4,000**	9.2%
Single-family	1,358	1,535	2,001	2,000	
Multifamily	1,145	1,367	1,663	2,000	
New Haven, Conn.					
Total	**2,396**	**1,974**	**1,483**	**2,000**	34.9%
Single-family	824	1,170	875	1,200	
Multifamily	1,572	804	608	800	
N.J.-Somerset Co.					
Total	**1,388**	**1,422**	**1,148**	**1,700**	48.1%
Single-family	617	749	473	800	
Multifamily	771	673	675	900	
New York City					
Total	**35,144**	**10,810**	**12,914**	**12,000**	−7.1%
Single-family	10,752	3,904	3,390	3,000	
Multifamily	24,392	6,906	9,524	9,000	
Philadelphia					
Total	**27,345**	**17,981**	**12,223**	**15,000**	22.7%
Single-family	12,828	14,244	8,766	11,000	
Multifamily	14,517	3,737	3,457	4,000	
Pittsburgh					
Total	**9,021**	**8,187**	**4,322**	**4,000**	−7.5%
Single-family	5,024	5,437	2,535	2,000	
Multifamily	3,997	2,750	1,787	2,000	

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Rhode Island					
Total	**5,928**	**4,681**	**3,241**	**4,000**	▲ 23.4%
Single-family	2,987	2,983	1,940	2,500	
Multifamily	2,941	1,698	1,301	1,500	
Rochester, N.Y.					
Total	**6,126**	**2,767**	**2,174**	**2,000**	▼ −8.0%
Single-family	3,079	2,474	1,694	1,200	
Multifamily	3,047	293	480	800	
SOUTH					
Atlanta					
Total	**27,500**	**14,183**	**32,367**	**40,000**	▲
Single-family	11,200	11,441	21,389	25,000	
Multifamily	16,300	2,742	10,978	15,000	
Austin					
Total	**7,178**	**7,203**	**14,343**	**15,000**	▲
Single-family	2,747	5,171	6,393	8,000	
Multifamily	4,431	2,032	7,950	7,000	
Baltimore					
Total	**19,900**	**13,286**	**10,654**	**12,000**	▲
Single-family	9,150	9,978	8,610	9,000	
Multifamily	10,750	3,308	2,044	3,000	
Birmingham, Ala.					
Total	**6,999**	**4,956**	**2,586**	**2,500**	▼
Single-family	2,833	3,249	1,502	1,500	
Multifamily	4,166	1,707	1,084	1,000	
Charleston, S.C.					
Total	**3,047**	**3,266**	**5,047**	**8,000**	▲
Single-family	2,005	2,037	2,888	5,000	
Multifamily	1,042	1,229	2,159	3,000	
Charlotte-Mecklenburg Co., N.C.					
Total	**5,601**	**3,209**	**5,101**	**7,000**	▲
Single-family	2,174	2,279	2,570	4,000	
Multifamily	3,427	930	2,531	3,000	
Dallas-Fort Worth					
Total	**31,657**	**35,020**	**63,400**	**45,000**	▼
Single-family	16,158	20,684	31,200	30,000	
Multifamily	15,499	14,336	32,200	15,000	
Daytona Beach, Fla.					
Total	**4,043**	**3,630**	**5,026**	**6,000**	▲
Single-family	1,832	2,909	3,376	4,000	
Multifamily	2,211	721	1,650	2,000	
Delaware					
Total	**6,320**	**3,060**	**2,994**	**3,000**	▲
Single-family	3,440	2,500	2,164	2,000	
Multifamily	2,880	560	830	1,000	
El Paso, Tex.					
Total	**5,655**	**2,939**	**4,580**	**7,000**	▲
Single-family	2,136	2,138	2,255	3,000	
Multifamily	3,519	801	2,325	4,000	

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Fort Lauderdale, Fla.					
Total	**36,521**	**13,687**	**11,471**	**15,000**	⬆
Single-family	9,495	6,633	3,959	5,000	
Multifamily	27,026	7,054	7,512	10,000	
Gainesville, Fla.					
Total	**2,034**	**1,984**	**2,265**	**2,000**	⬇
Single-family	859	1,008	1,041	1,000	
Multifamily	1,175	976	1,224	1,000	
Greenville, S.C.					
Total	**3,360**	**1,642**	**1,916**	**2,000**	⬆
Single-family	1,647	1,350	1,056	1,200	
Multifamily	1,713	292	860	800	

Photo: Courtesy Atlanta Chamber of Commerce

ATLANTA: PICKING UP THE PACE

Atlanta's got what everyone wants, and it's not just peach trees, pecans and antebellum reminders of a heady bygone era. What makes Atlanta nirvana for home builders is simpler: Atlanta's economic recovery came faster than anyone expected, therefore, there's more demand for housing than supply.

According to Alfred Gobar, a Brea, Calif., housing market consultant, demand is running at 45,000 units a year while housing starts have been in the 35,000-unit-a-year range.

But builders are working hard to pick up the pace. In 1983 Atlanta ranked fourth in the country with 45,190 starts; last year Atlanta ranked third (behind Dallas and Phoenix) with 51,305 starts. In 1985 NAHB economists predict Atlanta will move into second place with 44,075 starts—a decline of 14 percent but still a pace that will put Atlanta ahead of every market except Dallas.

What's creating all the excitement? David Chatham, president of Atlanta's HBA and of Chatham Properties, a custom building company, ticks off Atlanta's strong points: The climate is appealing with mild weather and four distinct seasons; the airport is one of the busiest, largest and most up-to-date in the world. These two factors are behind Atlanta's appeal as a relocation market for corporations, many of which are opening regional and national headquarters in the city. In addition, Atlanta has no topographical barriers to expansion—no physical restraints like oceans or mountains. The infrastructure is in excellent shape—the highway system was recently re-built with federal funds—and there is no lack of water, natural gas or electricity.

Atlanta's population growth reflects these factors, growing at a rate of 2.5 percent a year. By 1989 metropolitan Atlanta will add another 310,000 residents. As it stands today, Atlanta with over 2 million people in the SMSA is the 10th largest metro area in the country. Over 60 percent of the net increase in population has been due to in-migration, and a large percentage of the newcomers are housing-hungry yuppies recruited by those corporations opening headquarters in Atlanta. In addition to yuppies, young empty-nesters also are a large market.

Although the Atlanta market has traditionally been dominated by single-family building, multifamily has been taking an increasing percentage of starts in recent years. According to NAHB's forecast figures, the five-year average starts for multifamily went from 2,742 in 1975-79 to 10,978 in 1980-84, a 300 percent increase. Single-family, meanwhile, went from 11,441 in 1975-79 to 21,389 in 1980-84, an 87 percent increase. Most observers believe multifamily's peak is past but that healthy growth will continue and that the single-family move-up market has plenty of room to grow.

Photo: Courtesy Dallas Convention & Visitor Bureau

DALLAS: TOO MUCH OF A GOOD THING

What's wrong with this picture? Here is Dallas, grown rich and aggressive on oil, growing sleek and smart on high tech and getting friendly on a burgeoning service industry. Its diversified economy has so encouraged population growth that the number of people there is expected to double to 6.8 million by the year 2000. Inmigration alone should account for nearly 107,000 new residents this year. The unemployment rate is an almost negligible 3½ percent, and new industry continues to be attracted to the area: 80,000 to 85,000 new jobs were created last year and another 65,000 to 75,000 are expected this year.

It is a profile like this that has long kept major building companies like Fox and Jacobs, Pulte, U.S. Home, Ryan and Ryland and, in the multifamily sector, Lincoln Properties and A.G. Spanos, active in Dallas. After all, population growth and a healthy local economy are the underpinnings of a strong home building environment, and Dallas has them.

And yet, observers agree that Dallas, like her beloved Cowboys football team, will be thrown for a loss. Average annual housing starts, NAHB's economists predict, will be off an average of 29 percent for the next five years. Where Dallas averaged 63,400 annual starts in 1980-84, it should produce only 45,000 annual starts in 1985-89.

The main problem is that Dallas, and its sister city, Forth Worth, have had too much of a good thing. The Dallas-Forth Worth metropolitan area topped NAHB's metro forecast charts with a record-setting 112,500 starts in 1983 (second-place Houston had a mere 57,800) and topped the start list again last year with 82,900 starts—nearly 23,000 better than second-place Phoenix.

"You don't anticipate that that kind of record can be duplicated very often," is the straightforward explanation of Simon MacHugh, executive vice president of the Dallas HBA. "You don't want to set a record every year. It's not good for your market to grow that fast."

While all Dallas housing sectors will feel the pinch, single-family will feel it least, absorbing only a 4 percent falloff. Mid-density housing should continue to sell well while condos—both new and converted—won't. "New residents would rather have a small home and commute than buy a condominium," reports the *Fuller Real Estate Market Report.* To that MacHugh adds, "We've been a little ahead of ourselves in condos and more expensive single-family homes in certain parts of Dallas. There's inventory out there that needs to be absorbed which will have an impact initially on permits."

Multifamily will feel the brunt of the cutbacks. The number of available apartment units has increased by one-third in the past two years, due in good measure to outside investors toting syndication dollars that have overheated the multifamily market.

Dallas housing starts may go down, but don't count Dallas out. As William Gibson, chief economist with the RepublicBank Corp., Dallas, put it, "We're in a transition period. It's a transition from a very good period to a good period." Housing starts, as usual, are the harbinger of that change.

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Houston					
Total	**33,936**	**50,623**	**49,292**	**40,000**	↓
Single-family	16,225	26,402	27,162	25,000	
Multifamily	19,711	24,221	22,130	15,000	
Jacksonville, Fla.					
Total	**7,542**	**5,070**	**7,459**	**8,000**	↑
Single-family	2,043	4,184	4,233	4,000	
Multifamily	5,499	886	3,226	4,000	
Lakeland-Winter Haven, Fla.					
Total	**2,540**	**2,969**	**3,174**	**4,000**	↑
Single-family	1,404	2,393	1,795	2,000	
Multifamily	1,136	576	1,379	2,000	
Little Rock-N. Little Rock, Ark.					
Total	**3,716**	**2,461**	**2,737**	**3,000**	↑
Single-family	1,695	1,854	1,025	2,000	
Multifamily	2,021	607	1,712	1,000	
Memphis					
Total	**11,788***	**3,088**	**4,302**	**6,000**	↑
Single-family	4,909	2,610	3,151	4,000	
Multifamily	6,879	478	1,151	2,000	
Miami					
Total	**28,182**	**12,246**	**14,200**	**12,000**	↓
Single-family	8,626	7,166	5,332	6,000	
Multifamily	19,556	5,080	8,868	6,000	
Nashville-Davidson Co.					
Total	**5,835**	**3,405**	**4,492**	**5,000**	↑
Single-family	1,591	1,274	946	2,000	
Multifamily	4,244	2,131	3,546	3,000	
New Orleans					
Total	**12,118**	**8,012**	**8,260**	**8,000**	↓
Single-family	5,734	5,027	4,444	5,000	
Multifamily	6,384	2,985	3,816	3,000	
Norfolk-Portsmouth, Va.					
Total	**8,569**	**6,257**	**7,503**	**6,000**	↓
Single-family	3,341	3,837	4,194	4,000	
Multifamily	5,228	2,420	3,309	2,000	
Orlando, Fla.					
Total	**14,864***	**5,868**	**15,009**	**12,000**	↓
Single-family	6,153	5,095	9,400	8,000	
Multifamily	8,711	773	5,609	4,000	
Raleigh-Durham, N.C.					
Total	**3,500**	**3,011**	**4,332**	**4,000**	↓
Single-family	1,334	2,262	2,739	2,500	
Multifamily	2,166	749	1,593	1,000	
Richmond, Va.					
Total	**7,063**	**6,026**	**5,561**	**6,000**	↑
Single-family	3,247	4,539	4,384	4,200	
Multifamily	3,816	1,487	1,177	1,800	

* represents permits authorized

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Roanoke, Va.					⬆
Total	**2,536**	**2,033**	**1,567**	**1,800**	
Single-family	1,275	1,529	1,225	1,300	
Multifamily	1,261	504	342	500	
San Antonio					⬇
Total	**7,359**	**4,803**	**15,920**	**9,000**	
Single-family	2,936	2,255	7,309	4,500	
Multifamily	4,423	2,548	8,611	4,500	
Sarasota-Bradenton, Fla.					⬆
Total	**6,349***	**10,450**	**7,756**	**9,000**	
Single-family	2,362	5,490	3,520	4,500	
Multifamily	3,987	4,960	4,236	4,500	
Tallahassee, Fla.					⬆
Total	**3,549***	**1,712***	**2,400**	**3,000**	
Single-family	1,358	1,186	1,544	1,800	
Multifamily	2,191	526	856	1,200	
Tampa-St. Petersburg					⬇
Total	**29,824**	**13,134**	**21,361**	**20,000**	
Single-family	9,221	8,932	9,833	12,000	
Multifamily	20,603	4,202	11,528	8,000	
Tulsa					⬇
Total	**3,528**	**3,469**	**5,002**	**3,000**	
Single-family	2,157	3,088	3,090	2,000	
Multifamily	1,371	381	1,912	1,000	
Washington, D.C.					⬆
Total	**33,083**	**18,733**	**22,799**	**26,000**	
Single-family	18,869	13,949	18,813	21,000	
Multifamily	14,214	4,784	3,986	5,000	
W. Palm Beach-Boca Raton, Fla.					⬆
Total	**19,286**	**15,162**	**18,102**	**20,000**	
Single-family	3,714	7,300	8,746	12,000	
Multifamily	15,572	7,862	9,356	8,000	
MIDWEST					
Akron					⬇
Total	**4,450**	**3,085**	**2,511**	**2,500**	
Single-family	2,270	1,950	1,321	1,500	
Multifamily	2,180	1,135	1,190	1,000	
Canton, Ohio					⬆
Total	**2,554**	**2,438**	**1,886**	**2,000**	
Single-family	1,514	1,540	985	1,200	
Multifamily	1,040	898	901	800	
Chicago					⬆
Total	**45,060**	**36,976**	**16,305**	**18,000**	
Single-family	20,100	22,422	7,781	11,000	
Multifamily	24,960	14,554	8,524	7,000	
Cincinnati					⬆
Total	**9,888**	**9,005**	**4,914**	**5,000**	
Single-family	4,408	5,502	2,898	3,500	
Multifamily	5,480	3,503	2,016	1,500	

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Cleveland					
Total	**9,794**	**7,696**	**2,985**	**3,500**	⬆
Single-family	4,738	5,232	1,809	2,500	
Multifamily	5,056	2,464	1,176	1,000	
Columbus, Ohio					
Total	**9,794**	**6,122**	**4,792**	**5,500**	⬆
Single-family	4,738	3,821	2,753	3,500	
Multifamily	5,056	2,301	2,039	2,000	
Dayton					
Total	**5,420**	**3,399**	**1,857**	**2,000**	⬆
Single-family	2,959	2,320	1,345	1,500	
Multifamily	2,461	1,079	512	500	
Detroit					
Total	**29,738**	**20,439**	**7,853**	**8,000**	⬆
Single-family	15,650	14,507	4,557	5,000	
Multifamily	14,088	5,932	3,296	3,000	

Photo: Courtesy Minneapolis Convention & Visitor Commission

MINNEAPOLIS: STEADY AS SHE GOES

When talk turns to high-flying markets, Minneapolis and its twin city, St. Paul, best known for their bitter winters, seldom are mentioned. And yet, while housing starts in the Minneapolis-St. Paul SMSA don't reach lofty peaks, they never tumble into lowly valleys. Minneapolis is a steady, dependable market that does well in bad times and good. Proof: It has 15,000 starts a year for the past 15 years with a five-year average high of 16,849 in 1970-74 and a low of 14,260 in the 1980-84 period.

Unlike Atlanta, Dallas or Albuquerque, Minneapolis hasn't experienced dramatic population shifts, but there is some movement. The Twin Cities grew slightly—0.7 percent—between 1970 and 1980; forecasters believe population growth will step up to 4 percent during the 1980s. When population figures are recounted and tallied in 1990, Minneapolis should rank 12th in the nation—and that's without the appeal of a mild climate or a famous downtown center.

Household unit formation has grown faster than the population, which means households are becoming smaller and the need for housing greater. Strong employment also helps housing demand. The area's unemployment rate is only 4.4 percent, down by one-third since 1983. The greatest growth in jobs has come from a burgeoning service industry and from finance/insurance/real estate companies, reports Lynn Donohue of the Minneapolis office of Laventhol & Horwath, a national real estate consulting firm.

But the key to Minneapolis's overall success is its economic diversity. The area continues to attract and hold high-tech companies, medical centers and Fortune 500 companies such as Honeywell, Pillsbury, 3M, IBM and Control Data. Their presence means that recessions don't hit as hard or cut as deep as they do in cities dependent on one or two industries.

To serve the diverse and expanding economic base, office construction in downtown Minneapolis doubled in the last five years, creating for the first time a viable downtown housing market. High-rise living still is not popular in Minneapolis, which has traditionally been a single-family, suburban housing market. And not all the new downtown projects have succeeded. Those that have "are in good locations—near parks and the river—and have high amenities. The cheaper projects that aren't as well located are still looking for tenants," Donohue reports.

In the single-family market, starts fell 26 percent during the five-year period that included the 1980-82 recession, but NAHB's economists predict an 8.6 percent upswing in the five years to come.

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Evansville, Ind.					↓ [illegible]
Total	**4,452**	**2,073**	**1,281**	**1,200**	
Single-family	3,816	1,140	563	600	
Multifamily	636	933	718	600	
Flint, Mich.					↓ [illegible]
Total	**3,925**	**2,377**	**817**	**500**	
Single-family	2,473	1,697	594	300	
Multifamily	1,452	680	223	200	
Indianapolis					↓ [illegible]
Total	**7,234**	**3,676**	**4,220**	**3,000**	
Single-family	1,683	1,776	2,113	2,000	
Multifamily	5,551	1,900	2,107	1,000	
Kalamazoo, Mich.					↓ [illegible]
Total	**1,444**	**4,531**	**1,320**	**1,200**	
Single-family	675	2,480	571	600	
Multifamily	769	2,051	749	600	
Kansas City, Mo.					↓ [illegible]
Total	**11,694**	**8,940**	**6,736**	**6,000**	
Single-family	5,281	6,980	4,002	6,000	
Multifamily	6,413	1,960	2,734	2,000	
Madison, Wis.					↓ [illegible]
Total	**3,654**	**3,088**	**1,650**	**1,500**	
Single-family	1,322	2,011	845	800	
Multifamily	2,332	1,077	805	700	
Milwaukee					↓ [illegible]
Total	**8,962**	**7,965**	**3,026**	**2,800**	
Single-family	4,257	4,238	1,377	1,800	
Multifamily	4,705	3,727	1,649	1,000	
Minneapolis-St. Paul					↑ [illegible]
Total	**16,849**	**16,440**	**14,260**	**15,000**	
Single-family	7,885	12,440	9,200	10,000	
Multifamily	8,964	4,000	5,060	5,000	
St. Louis					↓ [illegible]
Total	**14,364**	**12,340**	**9,422**	**8,000**	
Single-family	7,840	9,584	5,204	5,000	
Multifamily	6,524	2,756	4,218	3,000	
Springfield, Ill.					↑ [illegible]
Total	**1,171***	**1,148***	**330**	**400**	
Single-family	546	666	99	200	
Multifamily	625	482	231	200	
Toledo					↓ [illegible]
Total	**5,019**	**4,260**	**2,170**	**1,500**	
Single-family	2,276	2,364	1,014	800	
Multifamily	2,743	1,896	1,156	700	
Wichita, Kans.					↓ [illegible]
Total	**2,087**	**2,969**	**3,483**	**3,000**	
Single-family	594	1,306	2,251	2,000	
Multifamily	1,493	1,663	1,232	1,000	

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
WEST					
Albuquerque					
Total	**5,429**	**5,030**	**3,052**	**7,000**	⬆
Single-family	2,454	2,798	1,628	3,000	
Multifamily	2,975	2,232	1,424	4,000	
Anaheim, Calif.					
Total	**27,289**	**22,132**	**10,375**	**13,000**	⬆
Single-family	13,190	12,381	5,826	7,000	
Multifamily	14,099	9,751	4,549	6,000	
Anchorage					
Total	**1,006***	**364**	**5,689**	**5,000**	⬇
Single-family	452	109	2,759	3,000	
Multifamily	554	255	2,930	2,000	

Photo: Courtesy Albuquerque Convention and Visitors Bureau

ALBUQUERQUE: NEW SUNBELT HOT SPOT

On a clear day—which is most every day in Albuquerque—residents of this young western city can see the majestic Sandia Mountains, mystical deserts, haunting pueblos and the steady flow of the Rio Grande River.

If they listen closely they can probably also hear the not-so-light tred of the armies of new arrivals from New York, Illinois and other points northeast and cold. Albuquerque, once a sleepy defense research center with a young but not very vibrant population, looks like it will be the next "hot" Sunbelt city. In-migration is swelling the metropolitan area's ranks from its present 470,000 to a predicted 630,000 in the year 2000, a 35 percent increase that catapults this edge-of-the-desert town into one of the five fastest growing cities in the country.

Mild winters, summers that aren't unbearably hot and nearby mountains are a magnet for retirees who don't want to pay the price or join the crowds at Phoenix and Tucson. Light industry also is moving in, attracted by an inexpensive, young and available labor force and an underground water supply that could support a population three times Albuquerque's size. What's not too attractive is Albuquerque's track record during economic downturns. "Things don't slow down during a recession," explains Mike Dontje, executive director of the Albuquerque HBA. "They stop."

A diversifying economy should smooth out those ups and downs and give Albuquerque the room to come into its own. "Everyone's been saying for years that we're the next San Antonio, that we're going to have explosive growth," Dontje says. Finally, it seems about to happen.

Multifamily builders already have anticipated that growth. "They saw the city's low vacancy rate (under 5 percent), heard about the population growth and, this year, went crazy," reports Dontje. When the dust cleared last year there were 5,300 multifamily starts, nearly four times as many as were built in 1983, with 3,000 to 4,000 units still in the pipeline. Dontje believes multifamily starts will continue to boom in the next two years, then the bottom will drop out.

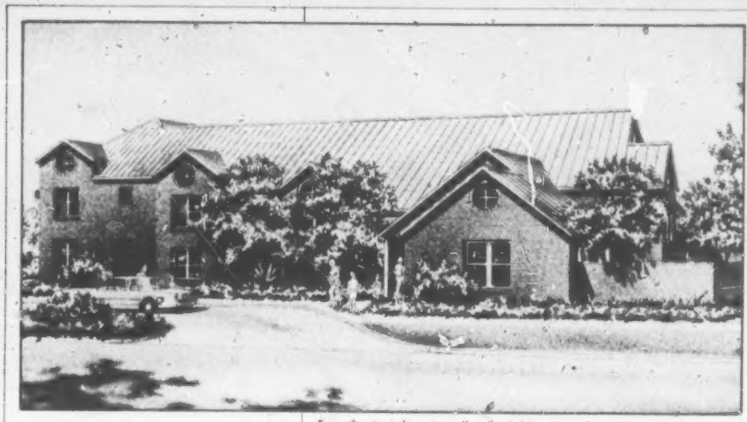
The single-family market, which enjoyed 2,300 starts in 1984, appears to have more room to grow in a steady, long-term manner. The five-year forecast predicts 3,000 new starts a year, nearly double the number of average annual starts for 1980-84. The number is sustainable, Dontje claims, if interest rates stay down and another bridge across the Rio Grande (to the undeveloped western sector of the city) goes up.

The upper end ($100,000 to $125,000) of the single-family market is strong and builders putting up $40,000 condos and $75,000 detached houses also are doing well. Among the big builders active in the city are U.S. Home, Presley Companies and Wood Bros. More should follow. Dontje reports he is contacted weekly by builders interested in coming into the Albuquerque market.

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Bakersfield, Calif.					
Total	**2,629***	**4,360***	**3,995**	**6,000**	↑
Single-family	1,852	2,707	2,299	2,000	
Multifamily	1,074	1,653	1,696	4,000	
Boise					
Total	**2,348**	**3,173**	**1,244**	**1,500**	↑
Single-family	1,683	2,290	1,028	1,000	
Multifamily	665	883	216	500	
Colorado Springs					
Total	**7,725**	**2,415**	**6,321**	**9,000**	↑
Single-family	3,640	2,301	3,748	4,000	
Multifamily	4,085	114	2,573	5,000	
Denver-Boulder					
Total	**27,780**	**18,553**	**20,688**	**18,000**	↓
Single-family	13,247	14,824	14,348	10,000	
Multifamily	14,533	3,729	6,340	8,000	
Fresno, Calif.					
Total	**2,496**	**3,115**	**2,360**	**4,000**	↑
Single-family	1,057	1,395	1,073	2,000	
Multifamily	1,439	1,720	1,287	2,000	
Hawaii					
Total	**9,872**	**8,800**	**6,345**	**5,000**	↓
Single-family	3,224	4,340	2,991	2,000	
Multifamily	6,648	4,460	3,354	3,000	
Las Vegas					
Total	**7,446**	**9,739**	**8,929**	**8,000**	↓
Single-family	4,587	6,001	4,793	5,000	
Multifamily	2,859	3,738	4,136	3,000	
Los Angeles-Long Beach					
Total	**41,668**	**32,623**	**23,731**	**25,000**	↑
Single-family	9,171	13,292	7,660	8,000	
Multifamily	32,497	19,331	16,071	17,000	
Modesto, Calif.					
Total	**2,926***	**3,716***	**2,123**	**2,000**	↓
Single-family	1,513	2,604	1,103	1,000	
Multifamily	1,116	1,112	1,020	1,000	
Oxnard-Simi Valley, Calif.					
Total	**5,974**	**7,272**	**3,040**	**4,000**	↑
Single-family	2,922	5,254	2,023	2,500	
Multifamily	3,052	2,018	1,017	1,500	
Phoenix					
Total	**28,678**	**25,896**	**34,419**	**35,000**	↑
Single-family	17,375	19,026	16,197	15,000	
Multifamily	11,303	6,870	18,222	20,000	
Portland, Ore.					
Total	**14,121**	**15,282**	**7,150**	**5,000**	↓
Single-family	8,434	10,447	4,686	3,000	
Multifamily	5,687	4,835	2,464	2,000	

Metro area	1970-74	1975-79	1980-84	1985-89	Percent of change
Riverside-San Bernardino, Calif.					
Total	**15,706**	**25,154**	**17,831**	**20,000**	↑
Single-family	8,443	19,823	13,295	14,000	
Multifamily	7,263	5,331	4,536	6,000	
Sacramento					
Total	**12,831***	**10,854**	**7,978**	**7,000**	↓
Single-family	6,162	9,203	5,700	5,000	
Multifamily	6,669	1,651	2,278	2,000	
Salem, Ore.					
Total	**2,749**	**3,924**	**1,146**	**600**	↓
Single-family	1,746	2,680	917	500	
Multifamily	1,003	1,244	229	100	
Salt Lake City-Ogden					
Total	**8,555**	**11,875**	**6,456**	**6,000**	↓
Single-family	4,719	8,709	4,065	4,000	
Multifamily	3,836	3,165	2,391	2,000	
San Diego					
Total	**25,971**	**25,299**	**15,339**	**25,000**	↑
Single-family	11,692	13,096	7,284	13,000	
Multifamily	14,279	12,203	8,055	12,000	
San Francisco-Oakland					
Total	**27,358**	**17,480**	**12,200**	**10,000**	↓
Single-family	11,929	12,010	7,280	6,000	
Multifamily	15,429	5,470	4,920	4,000	
San Jose					
Total	**14,833***	**10,569***	**5,142**	**5,000**	↓
Single-family	7,637	7,320	2,927	3,000	
Multifamily	7,196	3,985	2,215	2,000	
Santa Barbara					
Total	**2,540**	**1,944**	**1,754**	**2,000**	↑
Single-family	897	1,220	1,061	1,200	
Multifamily	1,643	724	693	800	
Santa Rosa, Calif.					
Total	**4,358***	**3,821***	**2,541**	**3,000**	↑
Single-family	2,769	2,935	1,856	2,000	
Multifamily	1,589	886	685	1,000	
Seattle-Everett					
Total	**7,818**	**21,438**	**13,794**	**12,000**	↓
Single-family	5,249	11,738	6,696	5,500	
Multifamily	2,569	9,700	7,098	6,500	
Stockton, Calif.					
Total	**3,044***	**4,752***	**2,518**	**3,000**	↑
Single-family	1,520	2,817	1,471	1,500	
Multifamily	1,524	1,935	1,047	1,500	
Tucson					
Total	**8,176**	**7,822**	**8,643**	**10,000**	↑
Single-family	5,001	5,026	3,036	5,000	
Multifamily	3,175	2,796	5,607	5,000	

Source: NAHB Forecasting Service



Families with critically ill children in local hospitals can lodge at the Ronald McDonald House built by members of the Greater San Antonio Builders Association.

or deserted by their parents. At present, HBA members are working on three such homes that the county leases to the Boys and Girls Housing Foundation. "It's easy to write a check for a charitable effort such as this, but we want to get completely involved in the project," said Susan Matlick, executive vice president of the Suburban Maryland HBA. In fact, the project already has outgrown the scope of an HBA committee; a separate foundation has been established to coordinate renovation of the homes.

In Erie, Pa., the Home Builders Association of Northwestern Pennsylvania has initiated a project in cooperation with three area hospitals that provides a "home-like, supportive environment" for the families and loved ones of patients receiving treatment in one of the area's hospitals. Three separate homes will be remodeled through donated manpower and materials. Funds also will be raised to furnish and operate the facilities on a permanent basis. Two of the facilities will be in the hospitals and the third will be a short distance from one of the hospitals.

A handicapped boy, Bobby Williams (age 9), and his family now have a new log home equipped for Bobby's special needs on the same lot as their original home, thanks to the efforts of the Home Builders Association of Fairfield County, Inc., Westport, Conn. Bobby, one of 11 children, was born without a spinal connection from his ribs to his pelvis and lost his legs in one of several major operations. The family's substandard living conditions were brought to the attention of the area through the media. The two-story, 4,000-square-foot log home has six bedrooms, with one on the first floor for Bobby.

More than 6,000 people contributed more than $120,000 to the Bobby Williams Fund to pay for the house and assist with the boy's education. HBA members volunteered the labor while Quaker Log and Solar Homes, Inc., of Oxford, Conn., provided the logs at cost and the construction supervision.

NAHB ANNOUNCES 20 BIGGEST HBAs

Of all 800 Home Builders Associations only two have more than 2,000 members, and both are in Texas. Number one in membership is the Home and Apartment Builders Association of Metropolitan Dallas, with 2,508 members as of October 1, 1984. In second place is the Builders Association of Fort Worth & Tarrant County, with 2,187 members.

The Dallas HBA added 335 members last year and the HBA of Fort Worth & Tarrant County added 366 new members.

Among the top 20 HBAs, the smallest has 956 members.

NAHB MEMBERSHIP—TOP 20 HBAs

HBA	Current membership
Home & Apartment Builders Association of Metropolitan Dallas	2,508
Builders Association of Fort Worth & Tarrant County (Tex.)	2,187
Home Builders & Contractors Association of Palm Beach County (Fla.)	1,969
Home Builders Association of Mid-Florida	1,737
Building Industry Association of Southern California	1,641
Greater Houston Builders Association	1,576
Northeast Florida Builders Association	1,447
Home Builders Association of Metropolitan Atlanta	1,326
Building Industry Association of Northern California	1,303
Austin Association of Builders	1,274
Central Oklahoma Home Builders Association Inc.	1,223
Greater San Antonio Builders Association	1,206
Home Builders Association of Greater Kansas City (Mo.)	1,124
Home Builders Association of Greater St. Louis	1,085
Home Builders Association of Metropolitan Denver	1,067
Home Builders Association of Maryland	1,038
Five County Builders & Contractors Association (Fla.)	1,017
Home Builders Association of Metropolitan Portland (Ore.)	999
Home Builders Association of New Orleans Inc.	962
Rhode Island Builders Association	956

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VOLUME 8, NUMBER 4 ■ APRIL 1985

BUILDER

COLUMNS

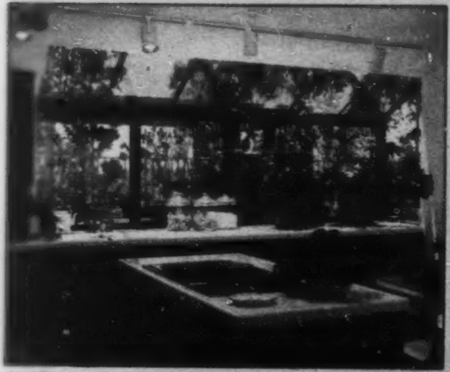
5 About Building
18 Money
22 Washington
26 Marketing
32 Strategy

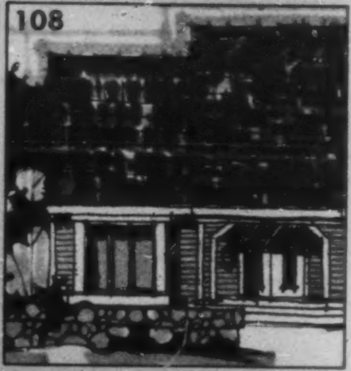
DEPARTMENTS

11 Outlook
130 Sketchbook
134 Shoptalk
137 NAHB Report
152 Product News
167 Ad Index
168 Mail

NEWS

42 Texas: After the rise a very big fall
44 No furnace, but house cozy at −40 degrees F.
50 ARMs, income gains boost affordability
58 Northeast tops resale rebound
58 Zoning board relations made easy
62 This Lebanese buildup involves new homes
66 Buyers say "oui" to French quarter style
66 Consumer agency presses HOW
68 Compensation up 27% for builder execs
72 Duplexes win popularity contest
72 New wiring system makes houses smarter
78 $625,000, but only a one-plane garage
80 Trammell Crow enters Dallas housing market
80 Wanted: good ideas





88—HOT BUTTONS

What features turn on buyers, particularly move-up buyers? That's what our eighth annual home buyer survey was designed to determine. And the results are must reading for builders who want to build bigger, better houses.

(Cover: Stoneybrook, Mission Viejo, Calif. Photo: Copyright 1984 Robb Miller)

108—DESIGN WORKSHOP

The first part of a series on design ideas for detached housing focuses on an American classic—the ranch or rambler. Prepared with William Devereaux, AIA, Berkus Group Architects.

114—NEW BREED

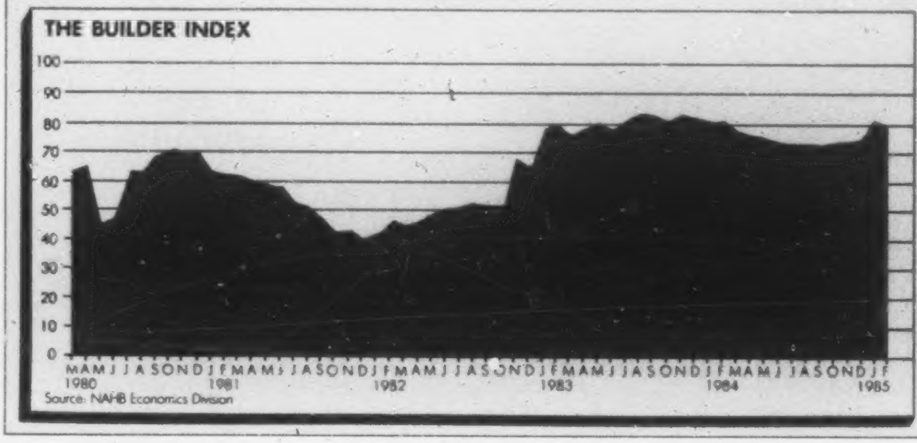
Five profiles of builders—all under the age of 40—who've won national reputations. They've each used different strategies, but all are smart, tough and aggressive.

124—PROJECT OF THE MONTH

Everybody looks to the sunbelt for growth opportunities. Well, almost everybody. Doug Main and his father, William, headed north to Alaska, where they introduced, of all things, California-inspired houses.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

The BUILDER Index slipped a bit in February to 80.20. Builders' expectations weren't quite as rosy, and interest rates were slightly higher.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Rose Colored Glasses

Michael Sumichrast
NAHB chief economist, Washington, D.C.

Spring seems a season of great promise for the housing industry. But, like it or not—or believe it or not—a certain uncertainty hangs over the economy. It's uncertainty caused by rapidly increasing credit market debt, huge deficits, an ever increasing trade deficit and an overvalued dollar.

Builders, however, don't seem too worried about what's troubling the economists. Instead of worrying about a possible financial collapse, builders are responding to stronger traffic and improved sales (see BUILDER poll next page). They feel enthusiastic and confident.

As a matter of fact, most Americans aren't terribly concerned about the huge deficits. They see the economy expanding and more people working and conclude things will get better, not worse. And builders, being an optimistic group, see it the same way.

Therefore, it falls on economists like me to stir the waters and to look ahead. In looking ahead, I look at one thing in particular: data. The data may or may not lie, and it may or may not tell the truth. But it is the best way to gauge the future.

Right now 1985 looks good, certainly better than we thought six months ago. But this rosy glow shouldn't mask some problems facing our industry.

First and foremost is our national debt. It is clearly out of control. There is no need to rehash all of the information. Just consider that by the end of this decade we will pay $230 billion a year in interest on the debt. That is 17 percent of the total budget, and 2.5 times as much as was spent on all new housing construction last year.

Government expenditures have increased at an unprecedented annual rate of nearly 20 percent during the past five years, or about twice as fast as growth in the gross national product.

In addition to spending too much, we are importing too much. As a result industrial production isn't as strong as it should be during a recovery. This in turn retards U.S. employment, is responsible for nonimprovement in the construction of industrial buildings and creates an enormous trade deficit.

At the same time we're importing goods, we're also depending on foreigners to support the deficit. Last year some $100 billion in foreign capital was attracted here—in large part because our interest rates are high. The withdrawal of that money would have a negative impact on our credit markets, even though it currently helps keep inflation down and supports the tourist industry overseas.

Another problem: an explosion of the credit markets. Last year credit grew by 14 percent, considerably more than the growth of GNP. Most of that increase was in the short-term market. (In the mortgage market that meant more variable rate borrowing.) That took place in combination with a trend toward less equity financing and a decline in the equity base of American corporations. All of this eroded the equity position of financial institutions.

The increase debt burden is due, in large part, to the continual interference of the government in the financial markets. The federal government has monopolized the bond market; and state and local governments are continually in the marketplace as well.

Last year, the mortgage market reached a new record of $205.8 billion, of which 70 percent ($144 billion) was in residential mortgages. The mortgage market took 26 percent of the total

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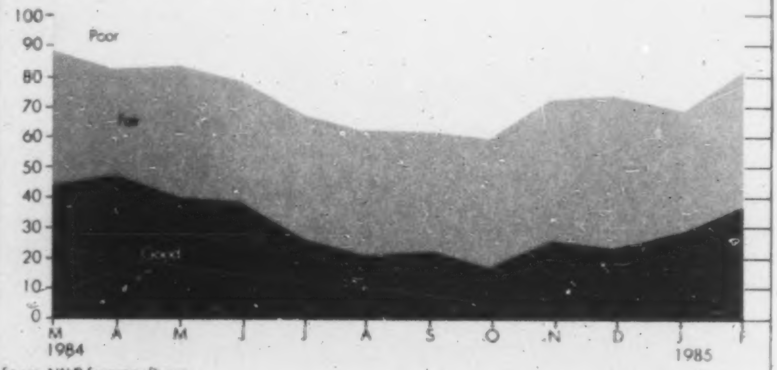
OUTLOOK/BUILDER POLL

CURRENT SALES

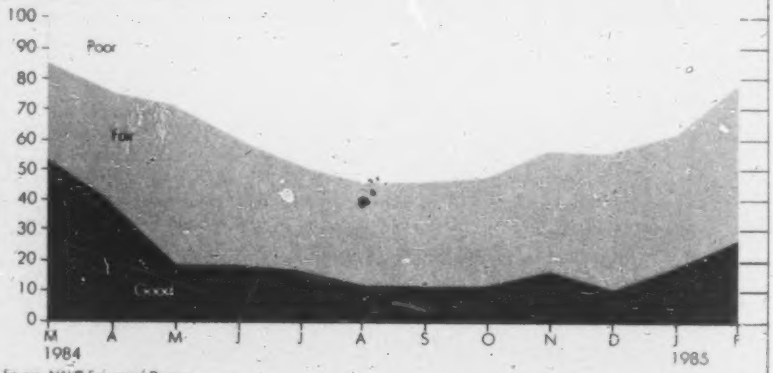
(new single-family detached homes in percent)



Source: NAHB Economics Division

CURRENT TRAFFIC

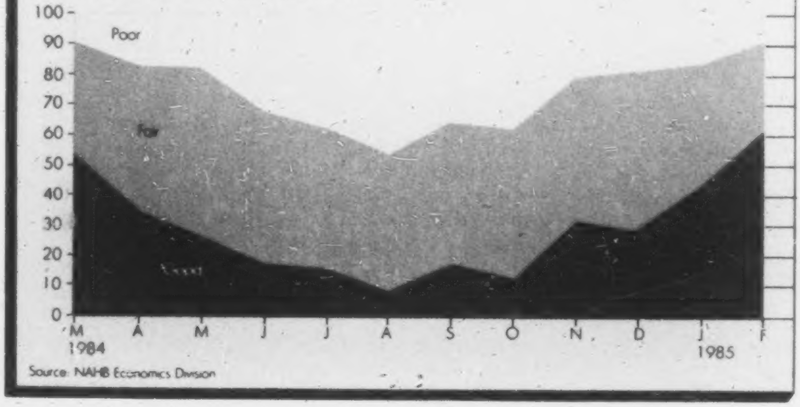
(all new homes in percent)



Source: NAHB Economics Division

6-MONTH OUTLOOK FOR SALES

(new single-family detached homes in percent)



Source: NAHB Economics Division

FAST TRACK

A Nebraska builder best summed up the results of the February BUILDER Poll: "We're on the right track now," he said. And, if the poll is correct, housing will be rolling on a very fast track indeed for at least another six months.

According to the poll, current new single-family home sales (top chart) are about as good as they were last spring, when they were quite good. Particularly strong are new home sales in the Northeast and West. In the Northeast, 60 percent of the builders surveyed said sales were good, 40 percent said they were fair and *none* said they were poor.

Interestingly, sales generally improved more than traffic (middle chart) indicating that most prospects are serious about buying.

The most spectacular improvement, however, occurred in builders' six-month sales outlook (bottom chart). In February, 63 percent of the builders polled rated the outlook for future sales as good. That was the most optimistic outlook since 1977. In addition, only 8 percent expect poor sales, and only twice in the last eight years has that figure been lower.

Why the optimism? A builder in Maine explained it this way: "As usual, interest rates and the economy are making it all happen."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

HIKE COULD BACKFIRE

The Reagan Administration's proposed hike in the VA loan origination fee would end up costing the government more than it would earn, according to the Congressional Budget Office (CBO). The proposed increase to 5% of the loan amount from the current 1% may increase the default rate and default cost when the fee is financed as part of the loan. However, CBO calculates that the proposed increase in the FHA mortgage insurance premium to 5% from 3.8% wouldn't be big enough to have a significant impact on loan originations or on defaults.

VA CLAIMS UP

Claims filed by lenders against the VA's home loan guarantee program climbed 13% last year to 25,391. However, it is not known when the defaulted loans were originated. Altogether, VA guaranteed nearly 182,000 home loans last year, a drop of 20% from the year before.

SYNDICATION SLOW-DOWN

The Treasury Department's tax simplification proposal helped slow down public real estate syndication sales late last year, but 1984 was still a record. The tax plan probably cost public syndicators up to $100 million, or about 10% of the money raised in the fourth quarter, according to Stephen Roulac & Co., a San Francisco-based real estate consulting firm. However, the full impact of the proposal is expected to be felt in the first half of this year. Last year public real estate syndications raised $5.7 billion in limited partnerships and real estate investment trusts (REITs), up 19% from the previous year. But the growth rate was much slower. Despite the slowdown and tax uncertainties, the company believes "real estate securities is still a viable business offering tremendous potential."

MORE COMPUTERS

FHA and VA may be about to climb aboard the computer bandwagon. Both reportedly are drafting proposed regulations to allow private computerized loan systems to accept and process FHA and VA loan applications. But they probably won't be able to close the loans—that, presumably, still would be the province of traditional lenders. The VA expects to have its proposed regulations out as early as this month.

ALIVE AND WELL

Fixed-rate mortgages are making a comeback but ARMs aren't dead, say mortgage finance experts. Fixed-rate loans accounted for 85% of mortgages originated in December by the 10 largest mortgage banking firms, according to a survey by the Mortgage Bankers Association. That's a big jump from last summer when only 30% to 40% were fixed-rate. But the biggest surprise was the popularity of 15-year fixed-rate loans, which accounted for 12% of December originations.

ZERO POPULATION GROWTH

The U.S. appears to be heading for zero population growth with a projected growth rate of less than 1% for the 1980s, according to a recent report by the Urban Land Institute. But some age groups will grow more than others, indicating that housing demand will be highest in the move-up and retirement markets. During this decade, the number of adults aged 35 to 44 will increase by 12 million, twice the growth of young adults 25 to 34. The number of empty-nesters aged 45 to 54 is projected to rise by only 2.5 million while those aged 54 to 64 will shrink in number by about 3%. The retired and elderly population, however, is increasing faster than the population as a whole. Those aged 65 and over should grow by about 25%, or 6.3 million.

THE YENS HAVE IT

The Federal National Mortgage Association (Fannie Mae) has made its first foray into the Euroyen market to expand its investor base. Fannie issued debentures totaling 50 billion Japanese yen (roughly $200 million). The seven-year debentures were offered exclusively to overseas investors at par with a coupon rate of 6.875%.

RESALES CONTINUE TO CLIMB

Existing single-family home sales increased in January for the fourth straight month, reported the National Association of Realtors (NAR). January sales hit an annual rate of 3 million, the highest level since last April. The January pace was 4.5% above the revised December rate and 3.8% higher than the sales rate a year earlier. The inventory of existing single-family homes for sale climbed to a 10-month supply at the end of January, up from a 9.4-month supply a month earlier. NAR also reported that the median price of existing single-family homes sold in January was $74,300—$2,200 or 3% higher than the revised December median. The January price was 5% above the median a year earlier.

CONTINUED FROM PAGE 11

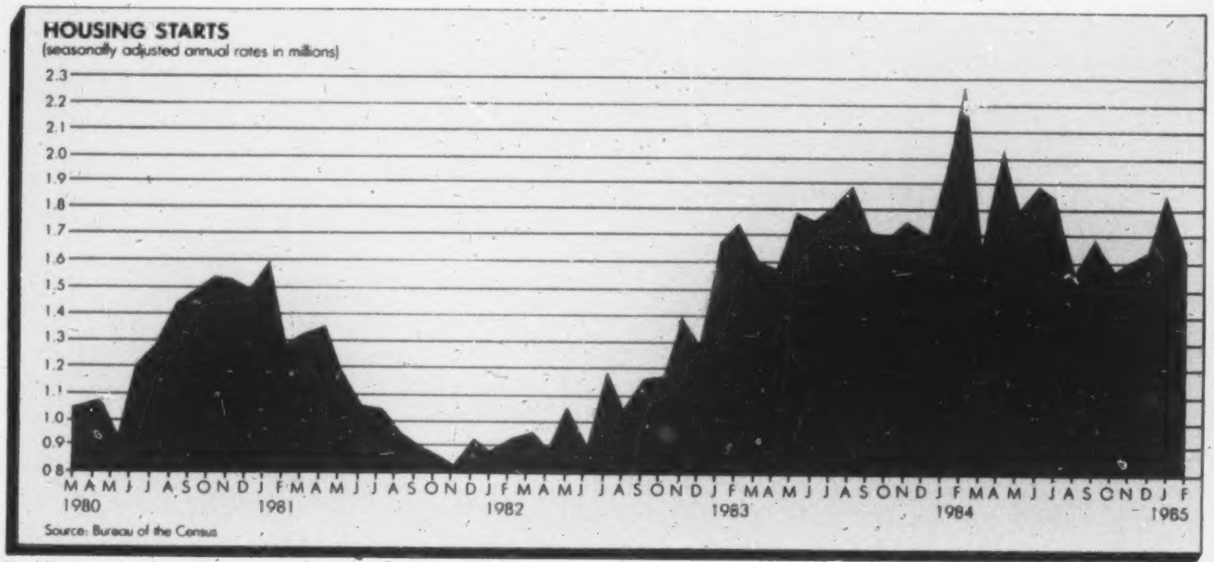
$805.2 billion raised in the credit markets. Our tax structure favored borrowing, and deregulation triggered the expansion of the debt. Now the risk has shifted away from financial institutions to households.

As it now stands there is hardly any question that recovery and prosperity cannot continue indefinitely with the deficit and trade balance raging out of control. That may be a gloomy forecast, but don't blame the economists. All we do is raise the issues. It's up to the politicians to do something about them.

Today we face much greater downside risks than we did a year ago. There's no way in the world that we can prosper by spending ourselves silly. And that is precisely what we've been doing.

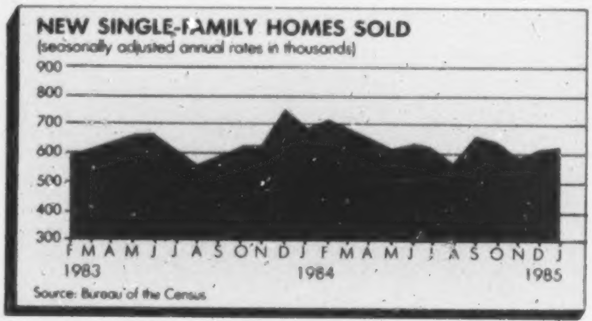
We will probably muddle through this year, but the signs are quite clear that we cannot extend our debt much more without eventually causing a monetary and financial crisis. For those who doubt this, it's time to re-read some economic texts.

OUTLOOK/STATISTICS



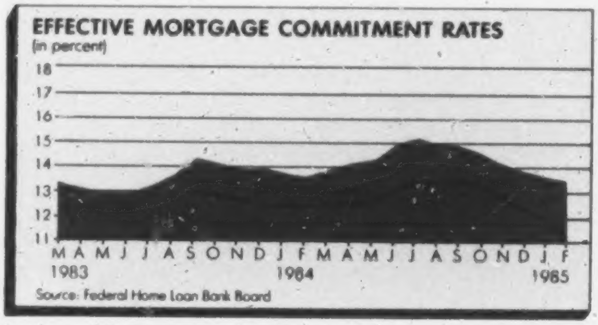
Source: Bureau of the Census

Unable to maintain January's steamy pace, starts fell 11% in February to an annual rate of 1.64 million. Apartment starts plunged 37%, following an astounding 68% jump the month before, but single-family starts rose 5%. Total February starts were down 26% from the 2.2 million pace a year earlier.



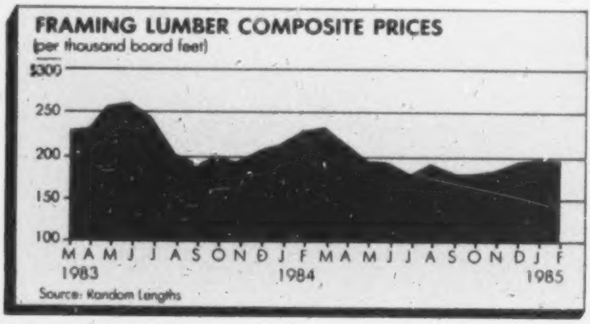
Source: Bureau of the Census

Sales edged up 2.6% in January to an annual rate of 620,000. But January sales were down 7.6% from a year earlier.



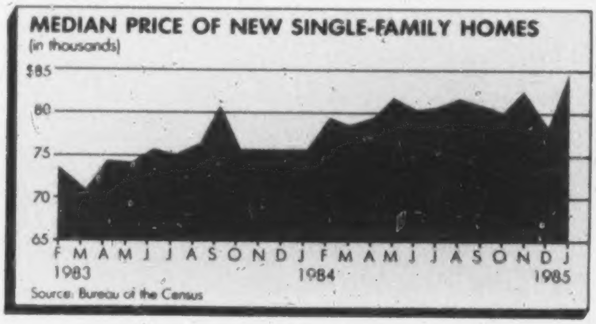
Source: Federal Home Loan Bank Board

Fixed rates fell in February to their lowest level in 18 months, dropping 19 basis points to 13.47%. It was the seventh straight decline. Uncapped adjustable rates fell 12 basis points to 11.63% in February.



Source: Random Lengths

After rising for three consecutive months, lumber prices dipped 3% in February to $193 per thousand board feet. The February price was 15.7% lower than a year earlier.



Source: Bureau of the Census

The median sales price of new single-family homes shot up nearly 8%, or $6,200, in January to $84,500 after falling $4,000 (revised) in December. The January price was $8,300, or 11% higher than a year earlier.

MARKETING

TEXAS: AFTER THE RISE A VERY BIG FALL

Job hunters in Detroit—including ex-builders—used to scan classified ads in the Houston papers looking for work. Now, it's likely to be the other way around.

It's no secret that Houston, after riding high in the early 1980s when the rest of the nation was in the throes of recession, has dropped like a stone along with the oil and gas industries.

Though less married to oil, the rest of Texas, including mighty Dallas, hit the skids last year—a year later than Houston did—but the fall, which is expected to continue throughout this year, shouldn't be as precipitous.

Though down, Texas is far from out. It produced more housing than any other state last year. And Dallas should remain the biggest housing market in the land despite a projected 19 percent drop in starts this year.

Houston, too, in spite of all of its problems, remains a bellwether market. It was the fourth largest housing market last year, down from number one in 1982. But it will take several years to regroup from its astronomical rise and equally astronomical fall.

Still depressed, Houston seems to be bottoming out, but there is some dispute about just where the bottom is. NAHB's forecasting service predicts total Houston starts will turn up slightly—about 5 percent—this year after dropping 47 percent last year (see table). But a prominent Houston real estate research firm, American Metro Study Corp., sees starts sliding another 20 percent this year.

"I'm convinced we're at the bottom," says Michael Inselmann, president of American Metro. "Total starts in Houston will be down again this year and we won't see any increase in production, but we will see an increase in the absorption of inventory."

Because single-family production dropped drastically last year, inventory is only slightly above normal, holding at a seven to eight-month supply. As a result, Inselmann predicts single-family inventory will be back in balance by summer and builders will be starting new projects.

But the multifamily market, which caused most of the problem in the first place, has a longer row to hoe. Inselmann predicts multifamily starts, which shot up 112 percent in 1982, will sink by a third this year after being chopped in half last year.

"It needs to be that way," Inselmann said. "We need a further slowdown in multifamily construction to get the market back in balance."

Though up to a quarter of all rental apartments in Houston are empty, Inselmann said the absorption rate is holding at around 14,000 units a year and starting to inch up.

But there still are too many apartments being built. Why the masochism? "Lenders still are pushing money at the apartment market," according to Donald Clayton, a researcher at American Metro. And "overly optimistic" developers still are willing to borrow it.

The rental apartment glut has been a boon to Houston renters and a thorn in the side of condo and low-end single-family builders.

Apartment rents are at 1982 levels or lower, says Clayton. "There are some incredible deals." Imaginative marketeers have graduated from offering one or two months free rent and no deposit to free furniture and VCRs. As a result, renters are sitting pretty with little incentive to become first-time buyers.

Gemcraft Homes is one single-family builder that has adjusted to the situation by shifting from starter homes to the middle of the market. Also, the company no longer builds on spec in Houston. But it still does in Dallas-Fort Worth—the new jewel in Gemcraft's crown—and San Antonio.

"Builders who pulled in their reins and stopped building on spec are doing well," said Andrew Zdobylak, president of Gemcraft. "Sales are picking up." He was feeling particularly upbeat because a new project that opened earlier this year in Houston had 68 sales in the first few weeks.

Altogether, the company plans to build a little more than 1,000 detached houses in Houston this year, slightly more than last year.

Giant Houston-based U.S. Home Corporation, which has been having its

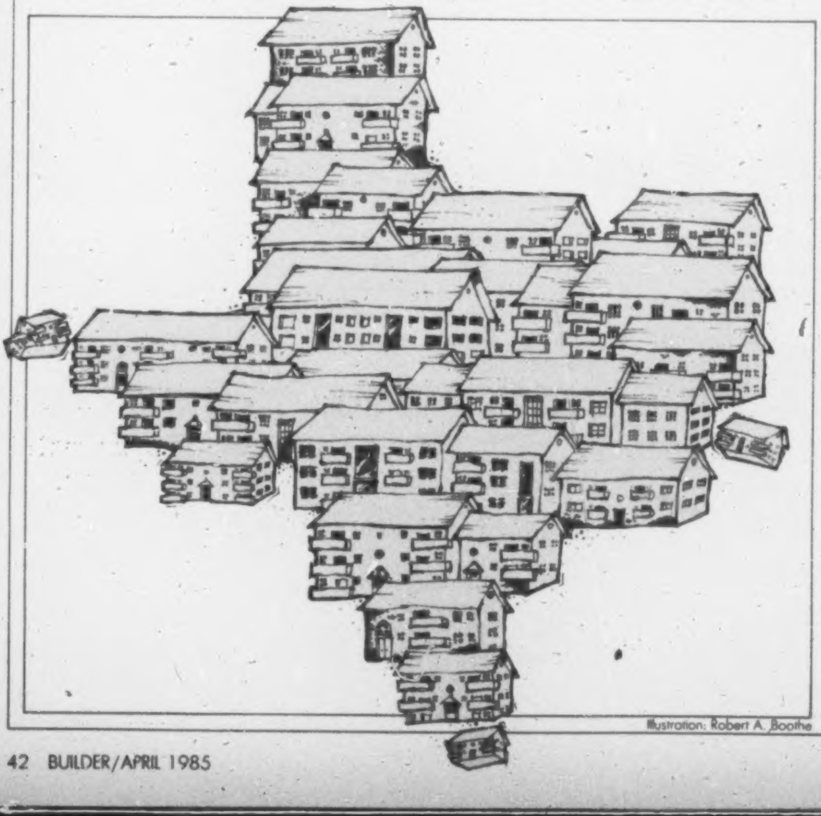


Illustration: Robert A. Boothe

troubles lately, is less optimistic. "The Houston housing market is depressed across the board," said spokesperson Kelly Somoza. In 1982 U.S. Home built roughly 5,000 homes in Houston, but "we think Houston is now a 1,500 to 2,000-unit a year market for us."

The company doesn't foresee an upturn in the single-family sector this year, "but in the long-run we believe it's a strong market," Somoza said.

But other Houston builders can't wait. Many have migrated to Dallas—just in time to catch the downturn there—or called it quits altogether. Among the larger companies that have stopped building homes in Houston during the past year are Wood Brothers, Texas Contemporary Homes, Genstar, Westbury Homes and Leatherwood Homes, reports Houston marketing consultant Edward Pond.

Although the Houston housing market is on its knees, the overall economy is beginning to show new signs of life. Nearly 27,000 net new jobs were created last year (the construction industry, however, lost 10,000).

That's a far cry from the 85,000 new jobs added each year during Houston's boom days but a definite turnaround from the 127,000 jobs lost in 1982-83. The shift has pulled the unemployment rate down a full three points from a high of 9.3 percent in 1983 to slightly more than 6 percent. In addition, the city is trying to diversify its economy, but that will take a long time.

Beginning to recoup one's losses, however, isn't the same as gaining new ground. As for the housing business, Zdobylak says Houston will be a tough market for two to three years to come, depending to a large extent on energy prices.

Dallas, on the other hand, isn't largely dependent on energy and is proud of it. True, the metropolis has been on a downswing since last year, but its troubles are due more to unsustainably high growth rather than a sick economy. The numbers tell the story.

Two years ago housing starts erupted by an incredible 125 percent, according to NAHB. That surge was particularly awesome coming on top of a 68 percent jump in 1982. Small wonder starts dropped 26 percent last year and are expected to sink another 19 percent this year.

The drop last year was anticipated because the 112,000 starts level the year before "was an aberration—unsustainably high," said Simon McHugh, executive vice president of the Dallas home builders association. "Starts may drop a bit more this year, but we're still producing more housing than anywhere else."

Housing market conditions are similar to Houston's, though less severe. Rental apartments are overbuilt. The for-sale market is down—though less than apartments—because the rental market is so soft and because pent-up demand for starter homes, which sparked the 81 percent rise in 1983 single-family starts, is petering out.

Nash Phillips/Copus is another single-family builder that has switched gears along with the market. NPC, which has been in the Dallas-Fort Worth market for two years, probably won't open any more first-time buyer projects this year, said Jim Siepiela, president of the Dallas-Fort Worth division. "We'll concentrate on the $90,000 to $100,000 detached market."

Although Siepiela says his company's single-family sales are up—60 units were recently sold in one project in five weeks—he thinks Dallas will slow down some more, "but not come to a halt like Houston. The Dallas economy is much more diversified."

NPC has built only one apartment project in Dallas and isn't planning any more. And it's a good thing.

Multifamily starts in Dallas-Fort Worth went into orbit with a 151 percent jump in 1982, followed by a phenomenal 175 percent leap in 1983, according to NAHB statistics. Then, the fall. Multifamily starts fell by a third last year and are expected to dive another third this year to roughly 33,000.

But that is up substantially from the 1982 level and well over twice as many multifamily units as Houston is projected to produce this year.

All in all the fall off isn't a bad

HOUSING STARTS: TEXAS, DALLAS, HOUSTON
(annual totals and percent change from previous year)

Housing starts	**1981**	**1982**	**1983**	**1984 (Estimate)**	**1985 (Projection)**
Texas					
Single-family	−2% 120,000	3% 124,000	29% 159,800	−26% 118,500	5% 125,000
Multifamily	12% 63,500	73% 110,000	43% 157,600	−32% 107,200	−16% 90,000
Total	2% 183,500	28% 234,000	36% 317,400	−29% 225,700	−5% 215,000
Dallas-Fort Worth					
Single-family	1% 20,400	29% 26,400	81% 47,700	−21% 37,800	−11% 33,500
Multifamily	−25% 9,400	151% 23,600	175% 64,800	−30% 45,100	−26% 33,400
Total	−9% 29,800	68% 50,000	125% 112,500	−26% 82,900	−19% 66,900
Houston					
Single-family	20% 27,720	15% 31,800	−4% 30,450	−40% 18,190	13% 20,610
Multifamily	4% 16,580	112% 35,170	−19% 28,330	−55% 12,690	−8% 11,710
Total	14% 44,300	51% 66,970	−12% 58,780	−47% 30,580	5% 32,320

Source: NAHB Forecasting Service

thing because vacancies are up and absorptions are down. The vacancy rate for rental apartments in Dallas-Fort Worth has climbed to 10 percent—half that of Houston's—and 36,000 units stand empty. What's more, the absorption rate is expected to fall from 40,000 units last year to 25,000 this year, according to Ron Witten, president of M/PF Research.

Rents have stopped rising but haven't gone down, and renters still have to cough up a deposit.

"Multifamily starts need to drop to less than 20,000 a year before the market will improve," Witten said. "But that's still a fairly active building pace." He believes the overbuilding is temporary and that the adjustment to a lower starts level shouldn't be too painful.

McHugh, of the Dallas home builders association, also thinks the slowdown in multifamily construction is necessary. "We don't want to get too big too fast. The roads can't keep up now."

The overall economy in Dallas-Fort Worth is slowing but still growing. Net new jobs, which totaled about 65,000 in both 1983 and 1984, are expected to decline to 50,000 to 60,000 this year. The unemployment rate has risen lately but remains substantially below the national average.

"We see 1985 as fairly strong for Dallas-Fort Worth but not as strong as the last two years," Witten said. "We're pretty optimistic."

The other major Texas housing markets are in the same boat. Rental apartments are overbuilt in San Antonio, Austin and El Paso, and that has affected their single-family markets.

San Antonio was the only place starts went up last year, thanks to a barn-burning single-family market, but it too is expected to decline this year.

The multifamily market in San Antonio is "highly saturated with heavy vacancies," said John Willome, president of Ray Ellison Homes. "We expect the single-family market to soften." He sees the company's total production declining about 9 percent from last year's searing pace.

Carol Anderson, news editor

ENERGY

NO FURNACE, BUT HOUSE COZY AT –40 DEGREES F.

In cold Colorado, husband and wife energy experts Amory and Hunter Lovins recently built a remarkable house that cuts energy needs to the bone. While admittedly a one-of-a-kind structure, the combination residence and research institute near Aspen showcases energy features the Lovins say production builders can use at modest additional cost.

The 4,000-square-foot superinsulated, solar and earth-sheltered home—designed by the Lovins and the Aspen Design Group—has no conventional heating system, and last winter, when temperatures plunged to –40 degrees F., the Lovins hardly noticed.

In addition to no heating bills (there is a wood-burning stove, just in case) the house consumes less than a tenth the usual amount of electricity and a third the normal amount of water.

These savings were achieved for about $6,000, or a 1.2 percent increase in the home's direct construction cost, which totaled about $500,000, or $130 per square foot, excluding land and financing. Since it is not uncommon for monthly energy bills to average more than $600 in comparably sized new homes, Amory Lovins calculates that his $25 a month electric bill (two-thirds for office equipment) and zero heating bill will yield a one-year payback on his energy investments.

At officially projected energy prices, he expects energy savings to repay the entire construction cost of the home within 40 years. The home was built, however, "with the next millennium's archeologists in mind," he said. The massive stone structure should last for centuries.

Lovins believes many of the design concepts and systems in the house could be copied by production builders. "The superinsulation and airtight construction, the R-5.3 windows, a floor plan that gets solar light and heat to the north side, and most of our electricity-saving features are readily adaptable to tract homes—all with

CONTINUED ON PAGE 50

Located high in the Colorado Rockies, this energy-efficient 4,000-square-foot home has no conventional heating system. Superinsulation, earth-sheltering, massive stone construction and passive solar heating do the job and then some.

Photos: Steve Andrews

CONTINUED FROM PAGE 44

about a one-year payback because there is no need for a furnace."

Lovins began with three of the four key elements in any superinsulation package: exceptionally high insulation values, airtight construction and controlled ventilation. A fourth element that's usually included—a backup heating system—was left out entirely, saving about $6,000. Engineering calculations convinced the local building department that no furnace was needed to meet a Uniform Building Code-required ability to maintain 70 degrees F. 3 feet off the floor. The bank agreed, to the tune of a $260,000 loan.

In the R-40 exterior walls, sheets of rigid foam are sandwiched between two layers of rock-covered masonry. The cedar roof contains R-60 foam insulation and is covered with a waterproof membrane and 1 foot of gravel and earth. Foundations below grade are insulated to R-25.

Vapor barriers, tight windows, earth sheltering and careful sealing of all penetrations yielded an air infiltration rate of 0.1 air change per hour. That's about 10 times tighter than conventional construction, yet controlled ventilation and operable windows assure good indoor air quality. Four small heat exchangers in the baths and kitchen and a larger system exhaust indoor air and pre-heat fresh air.

One of the most unusual conservation features is a new window product. The windows include a low-emissivity suspended film plus inert argon gas in the twin airspaces. The result: R-5.3 windows. "The windows are cheaper than good triple-pane units but have twice the insulating value," Lovins said.

Energy-conscious designers often eliminate north windows, but Lovins says the new high-R windows make the sacrifice unnecessary. Balanced natural lighting in this home has been a significant contributor to low electric bills.

Most superinsulated homes have only a modest amount of south-facing glass for daytime passive solar heating. Lovins wanted more. Twenty-five percent of the floor area is in south windows, and he says that satisfies the home's meager heating requirements.

The combination of direct-gain windows, a large greenhouse, and half a million pounds of masonry in the structure provide the collection and heat storage required to take the home through the winter.

"For extra safety margins, the house purposely is overglazed, overmassed and equipped with oversize vents," said Lovins. "It actually provides about a third more heat than we need; we simply vent the surplus."

While many passive solar designers have recently been either minimizing or eliminating large overhead glazing areas, the Lovins needed sloped glass—roughly 700 square feet of it—in order to grow vegetables, tropical fruits and fish year-round in their 900-square-foot central greenhouse.

In summer the combination of special glazing, large operable vents and low nighttime temperatures at the 7,100-foot elevation prevents overheating. (At lower altitudes, the sloped glass would have to be well-shaded, or its angle increased toward vertical, or both.)

Energy efficiency in the home extends beyond space heating. Hot water is saved by low-flow shower heads that propel a miserly but comfortable one-half gallon of water per minute. Special toilets and sinks further reduce water use and the size of the septic system.

Cutting electrical consumption by 90 percent in today's production homes is a very reasonable goal, according to Lovins. Quadrupled-efficiency light bulbs, automatically dimmed lights and an innovative refrigerator are just a few of the ways he achieved that goal in his own home.

The Lovins are continuing to search for new ways to save energy as part of their work at the Rocky Mountain Institute, the nonprofit research and educational foundation established to foster efficient resource use. A 16-page booklet describing the home and its design features is available for $5 from Rocky Mountain Institute, Drawer 248, Old Snowmass, Colo., 81654.

Steve Andrews, a Denver-based free-lance writer and passive solar design consultant

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MARKETING

ARMs, INCOME GAINS BOOST AFFORDABILITY

More people could afford to buy new homes last year than at any time since 1978, only many of them didn't do so.

According to a U.S. Housing Markets report published by the mortgage banking firm Lomas & Nettleton Co., the number of households that could qualify to buy a conventionally financed new home jumped 20 percent last year. It was the second year in a row for strong gains in affordability. Lomas & Nettleton measures affordability by dividing average income by average mortgage payments.

In the turnaround year 1983, the number of households that could qualify for a new house shot up by 50 percent—the strongest gain since at least the 1920s. Improvement wasn't as spectacular in the resale market. Affordability rose about 15 percent in both 1983 and 1984 because resale prices jumped in 1983 to recoup recession concessions.

Last year's rise in home affordability was due to an unusual rise in personal income, a sharp swing to adjustable rate mortgages (ARMs) and stable housing prices, according to the report.

The average conventional mortgage payment for a newly purchased home remained at $925 a month for new homes and $790 for existing homes, including taxes and insurance. Although average new home prices increased 3 percent last year (less than inflation), increased use of lower rate ARMs held average mortgage payments to the 1983 level.

But payments were easier to make last year because average household income climbed 8.5 percent to $34,600. After subtracting for inflation, real household income rose 4.5 percent, the biggest spurt since 1973.

As a result, mortgage payments as a proportion of income fell to an average of 32 percent for new homes, down from 35 percent in 1983, and to 27 percent for existing homes, down

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from 30 percent. These are the lowest ratios since 1978.

For the third straight year St. Louis was the most affordable market. There, conventional mortgage payments accounted for only 21.6 percent of income—25 percent less than the national average. Indianapolis was a close second with a 21.7 percent ratio.

Improvements in affordability were greatest last year in Indianapolis, Denver and Houston, mainly because those markets softened and housing prices declined. Prices of both new and existing houses dropped 7 percent in Houston—the largest decline among the 27 markets surveyed. Prices fell 6 percent in Indianapolis.

The least affordable market last year—also for the third consecutive year—was San Diego with a 38.2 percent ratio. Its average house price was 40 percent above the national average, but income there was only 2 percent higher. The next least affordable market was Los Angeles with a 37.2-percent ratio.

Boston, where house prices jumped 12 percent last year, was the only major area where affordability actually deteriorated.

So if housing was so affordable last year, why didn't more people buy? Apparently, low expectations for appreciation dampened demand.

In 1979, for example, when the mortgage payment-to-income ratio was somewhat higher than last year, sales of both new and existing homes were higher because the average home was appreciating 15 percent a year.

"This suggests that the payment-to-income ratio must be significantly lower than in the 1970s to provide a comparable stimulus to home purchase" if inflation and appreciation rates stay down.

However, it is becoming increasingly difficult to squeeze out more affordability. The ARM stimulus is over, in fact ARMs are losing market share, and real income growth isn't likely to take off again any time soon. So it seems further improvements in affordability will depend heavily on what happens to fixed-rate mortgages.

HOUSING AFFORDABILITY IN SELECTED MARKETS

Market	1983	1984
Atlanta		
Average household income	$34,200	$37,250
Average home price	$97,500	$98,300
Payment as percent of income	33.9%	29.7%
Boston		
Average household income	$38,750	$41,750
Average home price	$91,000	$102,500
Payment as percent of income	31.0%	32.1%
Chicago		
Average household income	$37,600	$39,800
Average home price	$92,800	$90,700
Payment as percent of income	30.3%	26.9%
Dallas-Fort Worth		
Average household income	$36,100	$38,950
Average home price	$104,500	$109,200
Payment as percent of income	34.6%	32.7%
Denver		
Average household income	$38,050	$41,000
Average home price	$119,300	$115,400
Payment as percent of income	36.5%	31.1%
Houston		
Average household income	$39,350	$41,650
Average home price	$101,900	$94,800
Payment as percent of income	32.8%	27.1%
Los Angeles-Orange Co.-Riverside		
Average household income	$36,350	$39,200
Average home price	$133,500	$132,000
Payment as percent of income	40.4%	37.2%
Miami-Fort Lauderdale		
Average household income	$32,500	$35,000
Average home price	$80,600	$84,700
Payment as percent of income	29.5%	27.8%
Minneapolis-St. Paul		
Average household income	$37,300	$40,200
Average home price	$95,300	$103,400
Payment as percent of income	28.7%	27.9%
New York City area		
Average household income	$40,350	$44,300
Average home price	$114,600	$126,500
Payment as percent of income	38.9%	36.6%
Phoenix		
Average household income	$32,200	$35,400
Average home price	$97,100	$101,400
Payment as percent of income	32.3%	30.9%
San Francisco Bay area		
Average household income	$39,900	$43,750
Average home price	$144,200	$143,400
Payment as percent of income	40.4%	36.7%
Seattle-Tacoma		
Average household income	$33,050	$35,250
Average home price	$96,100	$97,800
Payment as percent of income	33.3%	30.2%
Tampa-St. Petersburg		
Average household income	$27,350	$29,700
Average home price	$76,400	$78,100
Payment as percent of income	30.3%	27.5%

[1] Refers to conventionally financed new and existing homes sold
Source: U.S. Housing Markets, Lomas & Nettleton Co.

While homes became more affordable to buy last year, the rent component of the Consumer Price Index (CPI) increased 5 percent last year, marking the third straight year that rents rose slightly faster than inflation.

The biggest rent increase last year was 9 percent in San Diego, which followed a 9 percent rise the year before. Other areas with significant rent increases were San Francisco, up 8 percent, Los Angeles and Kansas City, Mo., up 7 percent, and Philadelphia and Washington, D.C., up 6 percent.

Houston once again was at the opposite extreme. Rents there dipped 2 percent—the first rent index decline in a major market in many years. Rents rose less than 1 percent in Miami and less than 2 percent in Portland, Ore.

Carol Anderson

NEWS

MARKETING

NORTHEAST TOPS RESALE REBOUND

Despite slightly higher mortgage rates, the number of resales edged up 0.7 percent in the fourth quarter of last year compared with the same period a year earlier. And in 13 states resales jumped by more than 10 percent, reported the National Association of Realtors (NAR).

New Hampshire experienced the biggest proportional increase in sales of existing single-family homes, condos and cooperatives during the period with a 31 percent annualized increase followed by Hawaii, up 21 percent, and Maine, up 20 percent.

"The significant improvements in home resale activity in New Hampshire and Maine are particularly noteworthy," according to NAR, "because the northeastern housing markets experienced a less severe downturn during 1982 than did housing markets in other regions, but the recovery in the Northeast has been more rapid than in most other areas."

Other states showing marked increases in resales from fourth quarter to fourth quarter are: Connecticut, up 20 percent, and Alabama and Montana, both up 16 percent. Several midwestern states didn't do badly either. Resales rose 14 percent in Indiana, 13 percent in Illinois and 12 percent in Iowa.

However, not every state was a winner. Resale activity declined from fourth quarter to fourth quarter in 15 states. Biggest losers were the oil-producing states: Oklahoma plunged 26 percent and Louisiana dropped 21 percent. Resales in Texas didn't do as badly, but they did shrink by 7 percent.

NAR also reported that, although the median sales price of existing single-family homes rose only 3.4 percent nationally during the period, several markets—especially in the Northeast—saw hefty price increases.

The biggest jump was in Boston where the median resale sales price rose 23 percent to $104,800, followed by New York City; up 14 percent to $107,800, and Rochester, N.Y., up 10 percent to $60,400.

By comparison, median resale prices increased slightly or even declined in a number of California markets where prices skyrocketed in the 1970s and the supply of resale homes is now plentiful.

For example, while the median resale home price in Anaheim-Santa Ana in Southern California was $130,600 in the fourth quarter of last year—the highest among the metropolitan areas surveyed—that figure was actually down 2.3 percent from a year earlier. And median resale prices dropped the most—7.5 percent—in another California city, San Jose. Still, its median price of $119,000 was the third highest nationally.

In other California markets, resale prices increased a slight 2.7 percent in Los Angeles to $114,500 and edged up 0.8 percent in San Francisco to $130,400. San Diego had the biggest increase, with a 6.4 percent jump to $104,900.

In Texas, Houston hemorrhaged the most. Resale prices there dropped 6.5 percent during the 12-month period to $74,800—the second largest decline among the metropolitan areas surveyed. But it was a different story in Dallas-Fort Worth where prices from fourth quarter to fourth quarter were up 6 percent.

TOP 10 STATES FOR EXISTING HOME SALES

(single-family houses, condos, co-ops)

State	Resales 1984 fourth quarter[1]	Percent change from fourth quarter 1983
California	372,600	2.2%
Pennsylvania	169,600	5.9
Texas	164,200	-6.9
Ohio	141,200	7.2
New York	140,400	-2.2
Michigan	137,900	0.1
Florida	131,600	-0.8
Illinois	129,800	13.2
New Jersey	121,000	3.9
Virginia	101,400	-7.3

[1] Seasonally adjusted annual rates
Source: National Association of Realtors

GOVERNMENT

ZONING BOARD RELATIONS MADE EASY

Changing demographics mean changing housing needs. That fact registered with home builders when the childless couples, the singles, the 45-year-old adult couples whose children had left home and the elderly started knocking on the doors of their model homes. But there's a large stumbling block—these changes are not acknowledged in most zoning codes and subdivision ordinances, and they may not even be perceived by local officials whose approval means life or death to planned developments. A problem? Certainly. Insurmountable? No.

Builders can do a better job of presenting their cases before zoning boards if they study the experiences of others who have succeeded. These builders have one thing in common: They attempt to cooperate with local government and avoid the confrontational approach.

Successful planning for zoning appeals requires early and close contact with local government staff. The staff will go through all of the local government requirements for a development, checking the builder's plans initially for conformity with the comprehensive plan and the zoning ordinance. When this initial review is completed the builder should know if there is a need for zoning relief and the time necessary to complete a zoning appeal. He also should have a much closer estimate of the costs of the development.

Builders who are consistently successful at zoning appeals, such as Bruce Blietz, president of the Blietz Organization, Inc., Evanston, Ill., suggest no quick tricks at this point. Blietz, whose company builds between 60 and 125 single-family, townhouse and condo units a year in the suburbs of Chicago, takes the consensus approach. After careful planning of each development, Blietz takes his proposal to the neighbors in the immediately surrounding community, often making door-to-door contact. He assures himself of neigh-

CONTINUED ON PAGE 62

thought that was deceptive—a failure to disclose a material fact," says Friedman. The home, which cost $88,000 in 1981, since has been devalued by the mortgage lender to less than one-third its original cost.

The OCA tried unsuccessfully to negotiate a settlement between the couple and HOW. (The couple is now suing the banker, the builder and HOW.) However, after the OCA considered taking action under the Deceptive Trade Practices Act, HOW voluntarily agreed to change certain practices in Montgomery County, where it insures 25,000 homes.

HOW agreed to share with homeowners any information on potential structural defects reported by HOW inspectors in the future. "The report was intended as an underwriting tool," explains HOW spokesperson Jane Moss Snow. "It was part of our builder evaluation process and not meant for the homeowner. We thought they [the OCA] overreacted on it."

HOW also agreed to alter its "take it or leave it" policy toward disputed repair claims. For instance, in the past if a homeowner alleged 10 defects, HOW would ask an independent consultant to determine if the defects were covered by the warranty. If the consultant determined that only six defects were covered, the claim would not be settled unless the homeowner signed a document waiving his right to the other four repairs. This provision is known as a "split decision."

In its agreement with the OCA, HOW agreed to revoke the split decision provision retroactively in Montgomery County. It will repair defects in eight homes there that its dispute settlement procedure had not required it to repair. "We think revoking the split decision is a positive step and will result in greater consumer confidence," says Snow.

The company also agreed to alter its advertising, which the OCA claimed misled customers. "HOW's brochure inferred that the company continually monitors insured homes during construction, which it doesn't do," says Friedman. "And it inferred that the homes it insured were of better quality than non-HOW homes, when in reality, its standards are consistent with local building codes."

Although HOW's agreement with the OCA only affects Montgomery County residents, Snow says the company is "studying the possibility of making this change nationally." Friedman says the OCA is looking into three other home warranty companies operating in the county, as well as plans offered by individual builders. "We want to determine if the problems we found are common throughout the industry."

June Fletcher

MANAGEMENT

COMPENSATION UP 27% FOR BUILDER EXECS

Salaries of top executives at home building companies are plunging, but that doesn't mean presidents and vice presidents are earning less than they did in 1980. Why? Because while salaries went down, bonuses went up. So, overall, chief executive officers are bringing home 27 percent more money than they were in 1980.

That is one of the findings of NAHB's *Builders Cost of Doing Business Study—1984*, a report that comes out about every five years and surveys builders on such far ranging topics as how much the company pays personnel to how much it pays for materials. It is, affirms Bill Triplett, NAHB's assistant director for business management, "the only effort in the entire industry to gather this data and offer home builders a benchmark to evaluate how they're doing in relation to others."

The survey findings are divided into both regional (Northeast, North Central, South and West) and company size (sales volume under $2 million, between $2 and $4 million, etc.) categories, so builders can compare, under a variety of headings, how they are doing with builders in similar situations.

For example, the study reveals that the most highly leveraged group of builders is that of middle-size (sales volume $4 million to $10 million) builders, who average a 5.2 to 1 debt to equity ratio. The least leveraged group is the smallest (less than $2 million in annual sales), which had a debt to equity ratio of 1.2 to 1. The national average, according to the survey, is 2.7 to 1. Big builders (more than $25 million in sales) are leveraged at 3 to 1. Regionally, builders in the West are the least leveraged.

As to expenses, among all builders regardless of size, general administrative expenses represent the lion's share (8.8 percent of total sales volume). The other expense categories are financing (4.5 percent) and marketing (3.3 percent).

The higher percentage of general administrative expenses has been true in the past five reports, Triplett points out, adding "This is the area where the builder pays least attention, yet this is where the biggest chunk of money is spent. If he paid more attention to bulk mail, automating for efficiency and improving procedures, a home builder could cut costs significantly."

Profitability is another important way of measuring one company's performance against another. Because of the elaborate tax laws affecting real estate and the home building business, *Builders Cost of Doing Business Study—1984* measured profitability by dividing before (rather than after) tax net income by net worth. The study's findings were that overall home builders in the 1984 survey enjoyed a 27.3

CONTINUED ON PAGE 72

TOP SALARIES

	1980		1984	
Position	Salary	Bonus	Salary	Bonus
Chief executive officer	$62,639	$52,824	$57,600	$84,068
Second top officer	46,328	24,785	43,389	28,424
Construction supervisor	25,494	6,810	25,751	5,410

Source: *Builders Cost of Doing Business Study—1984*

CONTINUED FROM PAGE 68

percent return on equity (profitability), which is a modest increase over the 1980 finding of 25 percent profitability.

The findings also suggest trends. The salary-bonus figures, for instance, suggest "a desire for greater flexibility," reasons Triplett. "Bonuses don't have to be paid unless the company has had a good year."

The 169 builders who participated in the survey averaged 15½ years in the business; they employed an average of 37 people. As to size, 57 percent took in less than $2 million in sales last year; 11 percent were between $2 and $4 million; 12½ percent were between $4 and $10 million; 11 percent were between $10 and $25 million and 8½ percent took in more than $25 million a year. Regionally, 51 percent of those surveyed came from the South, 21 percent from the West, 17 percent from North Central states and 11 percent from the Northeast.

Builders Cost of Doing Business—1984, which includes a worksheet to help builders figure out their comparative costs, is available through NAHB's bookstore at a cost of $14 for members, $18 for nonmembers.
Penelope Lemov, *business editor*

MARKETING

DUPLEXES WIN POPULARITY CONTEST

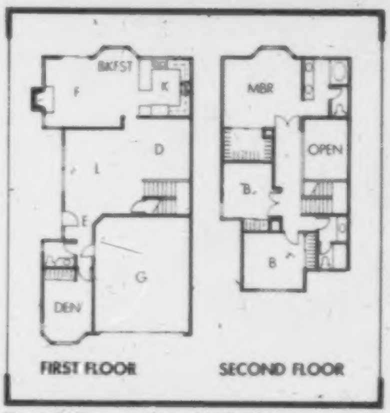
Large attached duplexes seem to be just what the San Diego market is after, and builder Pacific Scene is rushing to take advantage of their unexpectedly high popularity.

The company sold 53 units in two weeks—16 the first day—after its Summerhill project opened in mid-January. A total of 236 units are planned for the Encinitas site in north San Diego County.

"The large attached homes filled a void in the market," said Jay Summers, project manager. "Other attached homes in the area stop at around 1,500 square feet or where our's start. So our competition is single-family detached houses that cost about $20,000 more for the same square footage."

The three and four-bedroom, two and a half-bath duplexes have 1,504 to 2,083 square feet and are priced from $109,990 to $131,990.

After camping out for as long as a week, prospective buyers line up for the opening of Pacific Scene's newest duplex project near San Diego.



This 1,962-square-foot, $122,900 plan is the best-selling duplex at Summerhill.

The units proved so popular that 35 families camped out for the opening of phase one—some for as long as a week—and more than 1,000 people toured the models that first weekend.

Such an enthusiastic response prompted Pacific Scene to strike while the market was hot. It released phases two and three simultaneously two weeks later, and another camp-out was on.

In fact, the 14-year-old company registered its second best sales weekend ever in San Diego County when it sold 51 homes at six locations in late January. And Summerhill was the best seller. About half the purchasers there are first-time buyers. Especially popular was the project's Spanish Mediterranean theme. Architects Lorimer and Case designed the units.

The duplexes have two-car garages, Italian ceramic tile at entryways, formal dining areas, sloped ceilings and wood-burning fireplaces. Another sales boost: Buyers were able to lock in market mortgage rates for 150 days.

CONSTRUCTION

NEW WIRING SYSTEM MAKES HOUSES SMARTER

The Smart House project aims to graduate homes with brains.

Under the project, coordinated by the NAHB Research Foundation and supported by manufacturers, utility companies, trade associations and government agencies, a wiring system for new home construction is being developed that is intended to reduce building costs and expand the capabilities of houses to serve their buyers. The new

CONTINUED ON PAGE 78

BUILDER'S
1985 HOME BUYER SURVEY

HOT

Move-up buyers want bigger and better houses. But what, exactly, do they mean by bigger and better? That's what BUILDER's eighth annual home buyer survey determined.

LESLIE ENSOR STOCKMAN, DESIGN EDITOR with
JUNE FLETCHER, FEATURES EDITOR,
DEBORAH WOODCOCK, NEW PRODUCTS EDITOR

Sparks fly when a house presses a buyer's hot buttons. Hot buttons are the features and products that add perceived value to a house, that make it seem like an important step up for a home buyer. But knowing just which buttons really are hot isn't easy. And when housing climbs into the high-priced move-up categories, there are more and more buttons to press.

BUILDER's eighth annual home buyer survey zeroes in on move-up buyers, that is buyers of bigger, detached houses. A joint venture with George A. Fulton Research and Consulting, Fairfax, Va., the survey shows, among many other things, what size house buyers want, what they're willing to pay, why they want to move and which features turn them on.

The survey results are based on responses of 1,819 prospective new home buyers to a four-page questionnaire. The buyers were polled last fall at detached housing projects in seven major markets: the Virginia and Maryland suburbs of Washington, D.C.; St. Louis; New Jersey; Oklahoma; Dallas; Northern California and Southern California. To make sure all shades of move-up buyers were surveyed, the housing projects ranged in price from about $100,000 to more than $250,000.

Responses were analyzed by region and by the price prospective buyers said they would be willing to spend for a new house. In some cases the results are surprising, in other

River Run, Walnut Creek, Calif., is featured on page 102.

Photos: Copyright 1984 Robb Miller

THE STEP UP

Anticipated Price range	Total Sample
Household income[1]	$54,500
Home value[2]	
Current home	$109,750
Planned purchase[3]	$131,400
Percent increase	**20%**
Square footage[4]	
Current home	1,856
Planned purchase	2,212
Percent increase	**19%**
Equity vs. down payment[5]	
Equity	$44,800
Planned down payment	$28,900
Percent equity for down payment	65%

BUTTONS

cases, however, they are not. For example:

- Move-up buyers do want larger houses, typically about 20 percent bigger than the homes they live in.
- Higher prices lead to higher expectations. As buyers go up the price scale, they expect to find more features and high-quality finishes in a new house.
- Energy efficiency does matter. It's one of the key things buyers look for in a new house.
- Buyers want open living-dining rooms and kitchen-family rooms, but not too open. There should be some room separation. (Vaulted ceilings are more popular in the Sunbelt than in the East.)
- Overwhelmingly popular are brick siding, fireplaces, ceramic tile, wood shake roofs, decks, microwaves, double lavs, two-story plans, dead bolt locks and wood flooring.

One of the most important and disconcerting findings is that prospective buyers gave the new houses they'd seen warm, but not hot, ratings. That means a lot of builders aren't pressing enough hot buttons.

That's where the survey can help. It provides hard information about what choosy move-up buyers want. Prospects rated dozens of features and finishes on a scale of one to five, with one being least desirable and five being most desirable. The results, highlighted on the next 10 pages, are organized in tables that show what's hot and what's not in terms of exterior design and products and then in terms of features and products in each room of the house. The information is further organized by price range of housing, and those features with the highest ratings—hot buttons—pop out in boldface type.

Following the survey results are profiles of four move-up projects filled with features that respondents rated high. The success of each of these projects proves that pushing the right hot buttons rings up sales.

LOCAL SPONSORS

Following are the local sponsors who conducted the surveys in each market: Building Industry Association of Northern California, Dublin, Calif.; Builders Association of Metro Tulsa, Tulsa; New Homes Division, Long & Foster Realtors, Fairfax, Va.; Berry-Fulton Research, Ballwin, Mo.; Home and Apartment Builders Association of Metropolitan Dallas, Dallas; Schlott-Fulton Research, Bernardsville, N.J.; Walker & Lee, Inc., Santa Ana, Calif.; Ryland Homes, Vienna, Va.

GET IT ALL

Copies of the complete results of BUILDER's 1985 home buyer survey are available. (Information is organized by the price range of housing that buyers indicated they were seeking.) To order a copy of the survey results, send a check for $25 (payable to BUILDER) to BUILDER, 1985 Home Buyer Survey, 655 15th St., N.W., Suite 475, Washington, D.C. 20005.

Less than $100,000	$100,000 to $125,000	$125,000 to $150,000	$150,000 to $175,000	$175,000 to $200,000	$200,000 to $250,000	More than $250,000
$42,000	$46,300	$54,000	$60,000	$62,700	$69,800	$83,000
$75,150	$84,000	$104,500	$124,000	$136,800	$160,300	$192,200
$89,000	$110,300	$129,400	$146,500	$167,100	$214,400	$256,600
18%	**31%**	**24%**	**18%**	**22%**	**34%**	**34%**
1,556	1,654	1,845	1,871	1,955	2,000	2,400
1,876	1,947	2,005	2,318	2,387	2,463	2,882
21%	**18%**	**9%**	**24%**	**22%**	**23%**	**20%**
$30,100	$32,100	$39,300	$48,400	$60,100	$66,500	$116,700
$16,000	$22,200	$25,800	$31,600	$41,800	$45,900	$69,300
53%	69%	66%	65%	70%	69%	59%

1,2,4,5—median figures

3—The planned purchase price is based on the monthly payment prospects anticipate paying, the maximum interest rate they would accept and the amount of down payment they plan to make.

BUYING POWER

The profile of the move-up buyer that emerged from the survey probably jibes [illegible] the image most builders have formed almost intuitively. Most are between 26 and 45 years old with well above average incomes. More than half of them have children (chart below).

Predictably these buyers are looking for more and better space. A house with 2,000 square feet is the minimum for move-up buyers and the size of house sought increases with price range. (The median increase in the size of house buyers want is 356 square feet.) In the lower price ranges—$75,000 to $125,000—buyers seem to want more space than they can afford, so it is important that plans be efficient and feel spacious.

Childless couples comprise a surprisingly important segment of the move-up market, especially in higher price ranges. For example close to half the prospects expecting to buy a house costing more than $250,000 were two-person households. And as house price increases, prospects tend to be older, suggesting significant demand for detached, luxury housing for empty-nesters.

There is an interesting blip in the profile of buyers looking for houses that cost between $150,000 and $175,000. Singles make up a small but significant 14 percent of this market and shouldn't be overlooked.

Move-up buyers seem to have their feet firmly on the ground when it comes to paying for the house of their dreams. And they know they'll have to pay more—and they're prepared to pay more—for a bigger, better new house. In fact they say they're willing to buy a house that costs 30 percent to 50 percent more than their current homes. But based on the highest monthly mortgage payment, interest rate and down payment they will accept or can handle, most are more likely to move up a more prudent 20 percent to 30 percent in price (chart previous page).

In general, prospective buyers who own the least expensive homes (median value $84,000) and the most expensive homes (median value $192,000) are prepared to go up in price the most. As a rule of thumb though, the move-up buyer plans to buy a house costing 20 percent more than the home he currently owns.

While that's not too surprising, more surprising is the percentage of equity in their current homes buyers will use for the down payment on the new home—only 65 percent. That suggests that many of these buyers have extra buying power—buying power that can be activated by builders who push the right hot buttons.

PROFILE OF SURVEY RESPONDENTS

Planned purchase price	Less than $100,000	$100,000 to $125,000	$125,000 to $150,000	$150,000 to $175,000	$175,000 to $200,000	$200,000 to $250,000	More than $250,000
Age							
25 or under	8.7%	7.1%	7.6%	2.0%	5.2%	2.9%	2.9%
26 to 35	40.0	41.6	40.3	36.9	30.9	30.2	26.9
36 to 45	29.0	31.8	31.2	37.6	40.4	41.2	40.4
46 to 55	15.5	13.3	15.4	18.1	17.6	24.3	17.3
56 to 65	4.5	5.7	4.3	4.7	5.2	0.7	10.6
Over 65	2.3	0.5	1.2	0.7	0.7	0.7	1.9
Type of household							
Single male adult	3.0	0.9	3.3	4.0	1.5	1.5	1.9
Single female adult	3.0	2.8	3.3	2.7	4.1	0.7	1.0
Couple without children	34.7	35.8	37.5	36.9	27.5	32.4	41.8
Couple with children	52.9	57.3	50.0	49.0	63.6	62.5	52.4
Single parent with children	3.4	2.3	2.1	4.0	1.1	0.7	1.9
Unrelated individuals	3.0	0.9	3.8	3.4	2.2	2.2	1.0

MOTIVATING FACTORS

Factors	Total	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Larger home	**50.8%**	**41.2%**	**55.5%**	**52.6%**	**53.4%**	**50.0%**
Larger yard	30.4	29.4	32.6	26.0	33.1	**38.6**
Smaller home	5.7	4.2	7.4	3.7	4.7	6.1
Less yard maintenance	20.6	14.8	20.6	21.9	20.3	28.9
New product features	25.1	18.8	23.6	27.5	26.4	**37.7**
New design features	32.6	26.4	32.5	32.5	**40.5**	**39.5**
More energy efficiency	**45.5**	**43.0**	**49.4**	**43.3**	**43.2**	**39.5**
Investment potential	**37.1**	32.7	**38.1**	**38.1**	**36.5**	**39.5**
Tax advantages	**37.4**	31.2	**39.2**	**37.4**	**42.6**	**36.8**
Growing family	18.4	17.0	21.2	18.0	17.6	11.4
Job transfer	14.5	13.3	15.5	14.5	14.9	14.9
Closer to work	17.6	18.2	20.9	16.0	14.2	10.5
Better neighborhood	32.3	29.7	34.5	30.7	**37.2**	31.6
Better schools	19.8	19.1	21.5	20.8	16.9	18.4
Change of scene	15.7	18.2	13.9	17.5	14.9	12.3
Tired of renting	10.3	15.8	12.9	5.6	7.4	1.8

Respondents were allowed to make multiple choices.

Photos: Copyright 1984 Robb Miller

River Run, Walnut Creek, Calif. is featured on page 102.

LOOKING GOOD

Not every home can be a mansion, but houses for move-up buyers must have great curb appeal, even snob appeal. A good-size yard is important, and extra landscaping is a big, big plus. At the low end of the move-up market colonial elevations are the clear favorite, but contemporary is the choice at the top of the market (bottom chart). For all buyers finish materials that seem substantial and upscale are preferred (chart right).

The hottest buttons a builder can use on the exterior are:

- Brick, the overwhelming choice for siding;
- Decorative wood doors, clearly more popular than any other choice;
- Wood windows, top rated by respondents; and
- Wood shake roofs, followed closely by tile roofing.

Not all move-up housing can satisfy these champagne tastes, however. But it may be possible to use one or two of these features to lend a touch of class to more economical materials. A decorative wood door, for example, can be such a strong focus that it carries the rest of the front elevation. Brick, which may be too costly to use everywhere, can be used effectively as an accent wall or on a prominent chimney. In both cases brick can create the solid, expensive image buyers say they prefer.

Buyers also said they prefer two-story designs. Colonial architecture is the first choice of buyers looking for houses selling for less than $200,000 and is most popular in the Southeast. Contemporary design is the first choice in California and number one nationally among those seeking houses that cost more than $200,000.

According to the survey, builders may be underestimating the appeal of exterior features such as decks and patios, upgraded landscaping, fencing and security lighting. Prospective buyers in every price range rated all of them as very desirable.

DESIGN PREFERENCES

Elevations	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Tudor	10.2%	13.0%	16.0%	23.3%	21.6%
Colonial	**36.2**	**38.2**	**33.4**	21.6	16.4
Spanish	5.9	5.5	11.4	8.2	12.6
Contemporary	27.7	25.1	24.0	**34.9**	**28.8**
Victorian	13.6	11.1	9.1	6.5	14.4
Other	6.4	7.1	6.1	5.5	6.2

GAUGING THE RATINGS

1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

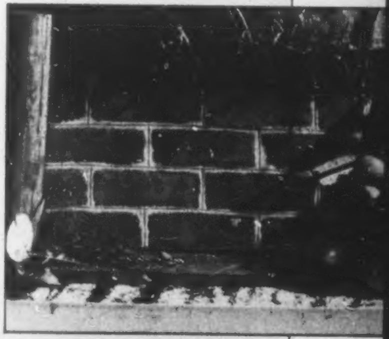
Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.

The most popular features appear in boldface type.

CREATING CURB APPEAL

Product features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Siding					
Aluminum	2.34	2.39	2.08	1.65	1.63
Brick	**4.55**	**4.41**	**4.41**	**4.44**	**4.30**
Cement block	1.53	1.51	1.56	1.58	1.45
Hardboard	2.15	2.17	2.17	2.11	1.99
Lumber	2.79	2.86	3.07	3.33	3.13
Plywood	1.47	1.49	1.48	1.57	1.44
Stone	3.76	3.71	3.92	3.99	3.84
Stucco	2.25	2.43	2.92	3.13	3.02
Vinyl	2.32	2.00	1.84	1.57	1.59
Roofing					
Asphalt or fiberglass shingles	3.42	3.16	2.84	2.46	2.43
Roof tile	2.70	3.03	3.33	3.45	3.61
Wood shake	**3.76**	**3.84**	**4.03**	**3.98**	**3.88**
Entry doors					
Decorative steel	3.26	2.98	2.68	2.36	2.40
Plain steel	2.03	2.06	1.85	1.64	1.51
Decorative wood	**4.48**	**4.40**	**4.49**	**4.63**	**4.72**
Plain wood	2.71	2.70	2.75	2.69	2.56
Windows					
Aluminum	3.14	3.19	3.10	3.04	3.07
Vinyl-clad wood	3.52	3.21	3.20	2.86	2.77
Wood	**3.87**	**3.88**	**4.07**	**4.18**	**4.04**
Garage					
Two-car garage	**4.27**	**4.36**	**4.02**	3.60	3.03
Three-car garage	2.83	3.08	3.64	3.97	**4.48**
Automatic garage door	**4.27**	**4.26**	**4.36**	**4.46**	**4.59**
Trim and landscaping					
Awnings	2.45	2.33	2.41	2.59	2.24
Shutters	3.65	3.74	3.63	3.46	3.47
Security lighting	3.78	3.73	3.89	**4.11**	**4.14**
Covered porch	**4.25**	3.98	3.98	3.83	3.61
Patio	**4.23**	**4.13**	**4.17**	**4.40**	**4.14**
Wood deck	**4.39**	**4.27**	**4.22**	**4.29**	3.83
Hot tub or spa	3.16	3.46	3.51	**4.09**	**4.10**
Trellis and plant shelves	3.07	3.16	3.19	3.50	3.42
Lawn sprinkler system	3.15	3.54	3.88	**4.15**	**4.37**
Upgraded landscaping	3.98	**4.08**	**4.08**	**4.38**	**4.48**
Fencing	3.71	3.77	3.80	**4.18**	3.95

See accompanying rating scale.



RIGHT RECIPE FOR KITCHENS

A house can rise or fall flat on the merits of its kitchen. So it's especially crucial to know what the hot buttons are in that room.

Evidently, though, not many builders have the right recipe for their kitchens. While survey respondents rated the kitchens they'd seen in new homes as above average, there's room for improvement, especially in the $250,000-and-up range. (The biggest shortcoming is storage space.)

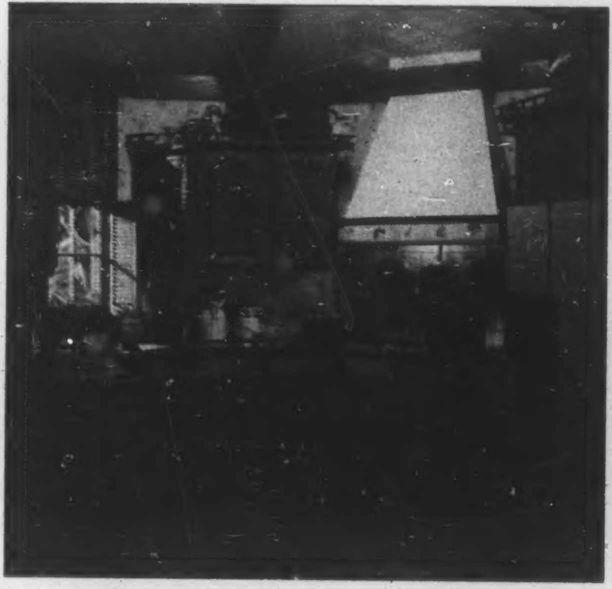
What, then, do buyers want? To begin with, they favor an island kitchen layout. The questionnaire showed three common kitchen layouts—eat-in, u-shape and island—and asked buyers to rate them. In all regions and all price ranges the island plan came in first (bottom chart).

Another universal favorite is a walk-in pantry—an old-fashioned feature whose time has come again. The buyers liked some other tried-and-true features, too. Wood cabinetry, eating areas and double-bowl sinks were the three top-ranked kitchen features in the survey (chart right).

Builders in the Middle Atlantic states might do well to try ceramic tile kitchen counters, long a western favorite. Tile counters received high ratings in New Jersey and the Washington, D.C., suburbs where they are seldom used.

Ceramic tile flooring did well, too, particularly in housing that cost more than $150,000. In the $200,000-and-up ranges, hardwood kitchen floors are a favorite. Buyers in the lowest range want resilient vinyl flooring.

Buyers of the most expensive houses want a separate range and oven, but in the lower price categories they prefer the range and oven in one unit. Sinks break out along the same lines. At the top end, people lean toward porcelain sinks, but below that price they prefer stainless steel. Across the board, however, buyers want a microwave oven.



GAUGING THE RATINGS

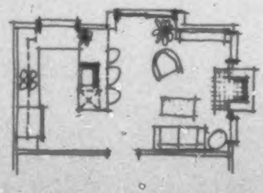
1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

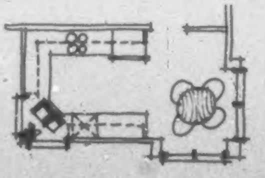
Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.
The most popular features appear in boldface type.

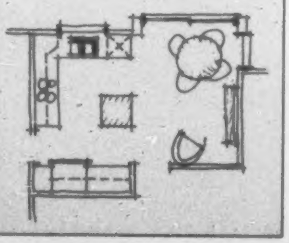
U-SHAPE, EAT-IN, ISLAND

Kitchen layout	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
U-shape kitchen	2.96	3.20	3.11	3.04	2.95
Eat-in kitchen	3.42	3.29	3.39	3.29	3.29
Island kitchen	**3.65**	**3.72**	**3.72**	**3.85**	**3.78**

See accompanying rating scale.



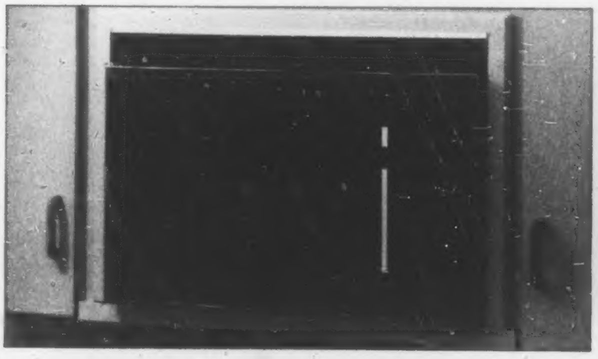


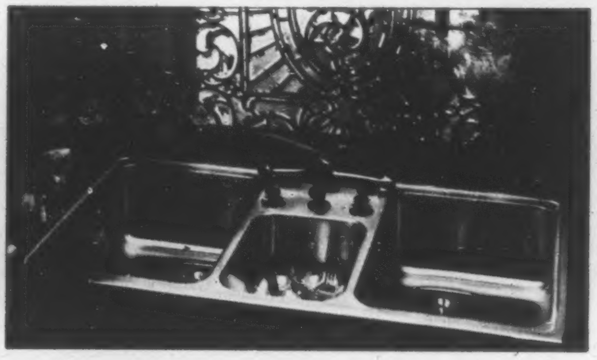


KITCHEN FAVORITES

Kitchen features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
European-style laminate cabinetry	2.91	2.76	2.83	2.71	2.80
Wood finish cabinetry	**4.60**	**4.58**	**4.56**	**4.62**	**4.59**
Barbecue cook top	2.93	3.09	3.21	3.61	3.58
Ceramic tile counter tops	3.66	3.67	**4.00**	**4.23**	**4.22**
Laminate counter tops	3.73	3.54	3.20	2.80	2.79
Eating area	**4.51**	**4.47**	**4.54**	**4.50**	**4.49**
Ceramic tile flooring	3.46	3.55	3.90	3.93	3.98
Resilient vinyl flooring	**4.05**	3.87	3.58	3.12	3.15
Wood flooring	3.44	3.50	3.55	3.79	3.84
Built-in food processor	2.48	2.55	2.71	2.93	3.21
Greenhouse window	3.71	3.58	3.77	**4.03**	3.73
Intercom	2.70	2.87	2.93	2.96	3.32
Island work area	**4.01**	3.95	3.99	3.98	**4.11**
Microwave oven	**4.13**	**4.15**	**4.24**	**4.40**	**4.47**
Double oven	3.56	3.85	**4.06**	**4.31**	**4.37**
Single oven	3.24	2.93	2.69	2.45	2.25
Range and oven separate	3.14	3.29	3.51	3.52	3.84
Range and oven together	3.92	3.83	3.51	3.54	3.23
Double-bowl sink	**4.61**	**4.46**	**4.44**	**4.50**	**4.59**
Single-bowl sink	2.00	2.18	2.20	1.90	1.89
Porcelain sink	3.25	3.18	3.39	3.58	3.70
Stainless steel sink	3.93	3.84	3.70	3.36	3.20
Snack bar	3.36	3.34	3.34	3.42	3.31
Trash compactor	2.82	2.89	3.10	3.54	3.80
Walk-in pantry	**4.30**	**4.16**	**4.22**	**4.10**	**4.30**

See accompanying rating scale.





MASTERLY SUITES

The master suite is a perfect place for hot buttons. Most existing homes have humdrum bedrooms and baths, so a new home with high-appeal features and appointments in the master suite really will seem like a big step up.

Most appealing are features that make life easier for two-income households. For example, buyers like a dressing area with a walk-in closet. Separate shower and tub in the master bath scored high as well. And two sinks in the bathroom were seen as very desirable by the respondents (top chart).

Buyers in the higher price ranges expect more expensive finishes and more luxury appointments in the master suite. When a house costs more than $200,000, buyers want a private patio and balcony off the master bedroom. Ceramic tile floors and walls, upgraded fittings and whirlpool tubs also grow in appeal as price increases.

Storage space in the master suite is a very hot button. Buyers gave consistently high marks to linen closets and vanity storage in the master bath and walk-in closets in the bedroom. Built-in shelving systems have an especially enthusiastic following in the Southwest.

A fireplace in the master bedroom (bottom chart) warms buyers in California more than buyers in other markets, where it was seen as moderately desirable. The same is true of bay windows in the master suite. Buyers in the East gave this feature a somewhat cool reception, but its appeal grew as the markets headed west. And a sitting area in the master bedroom generated moderately enthusiastic interest, suggesting it's a nice but not necessary feature in most markets.

GAUGING THE RATINGS

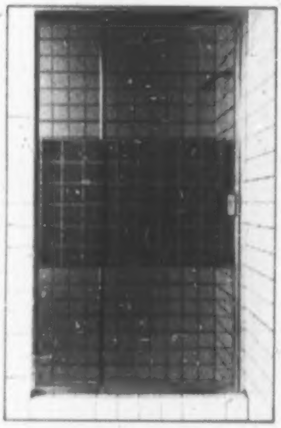
1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.
The most popular features appear in boldface type.

SPLASHY BATHS

Features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Bay window	2.83	2.66	2.92	3.31	3.30
Upgraded fittings	3.93	3.92	**4.06**	**4.17**	**4.27**
Colored fixtures	3.67	3.33	3.40	3.49	3.55
Ceramic tile flooring	3.96	**4.01**	**4.16**	3.99	3.94
Linen closet	**4.12**	**4.11**	**4.10**	**4.08**	**4.31**
Mirrors	3.84	3.88	**4.10**	**4.25**	**4.34**
Separate shower enclosure	**4.41**	**4.26**	**4.38**	**4.51**	**4.54**
Two sinks (instead of one)	**4.10**	**4.26**	**4.37**	**4.50**	**4.47**
Vanity storage	**4.09**	3.99	**4.02**	**4.11**	**4.21**
Ceramic tile walls	**4.32**	**4.36**	**4.47**	**4.43**	**4.42**
Whirlpool tub	3.57	3.53	3.53	3.94	**4.01**

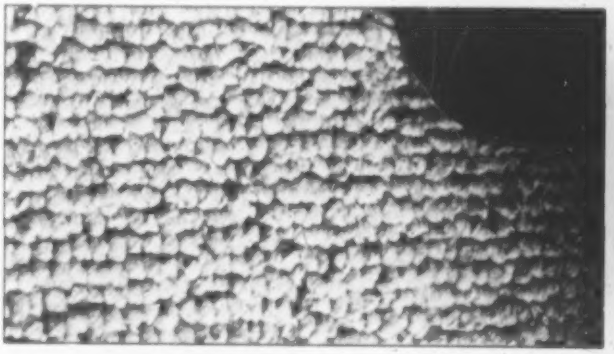
See accompanying rating scale



NOTHING SLEEPY

Features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Bay window	3.55	3.30	3.34	3.57	3.44
Balcony or patio	3.75	3.72	3.86	**4.17**	**4.23**
Dressing area with walk-in closet	**4.52**	**4.53**	**4.51**	**4.72**	**4.67**
Fireplace	3.52	3.41	3.57	3.80	3.99
Built-in shelving system	3.84	3.71	3.63	3.67	3.74
Sitting area	3.61	3.62	3.76	3.92	3.79
Walk-in closet	**4.59**	**4.60**	**4.61**	**4.66**	**4.49**

See accompanying rating scale



TAKING AN INSIDE LOOK

A two-story house still tops the list for most move-up buyers. Half the respondents rated it their number one choice (chart below). Nowhere is the preference stronger than in the East, where more than two-thirds of those surveyed gave two-story plans the top rating.

Dallas, in fact, was the only market surveyed to favor another plan, with buyers there favoring one-story plans by three to one. Split levels ranked a distant third in most markets, except in California, where they were ranked second.

No matter how many levels a house has, its floor plan should be relatively open, but with room definition. Only about 10 percent of the national market is ready for completely open plans and a fourth remains loyal to a plan with distinct room divisions.

Of the two-thirds who want a two-story plan, more than 60 percent want the master bedroom upstairs. The rest want it on the first floor. Although in Dallas, Oklahoma and St. Louis and in houses costing less than $100,000, first-floor master suites have an edge.

Predictably, buyers prepared to spend more for a home expect the size to increase with price. Those prepared to pay less than $100,000 for a new home expect 1,869 square feet, while those willing to pay more than $250,000 want 2,882 square feet.

The price per square foot a buyer is willing to pay also rises with house price. Thus, those in the lowest price range are willing to pay about $50 a square foot while those in the highest range will double that and more. This, in part, reflects the quality of materials and quantity of amenities buyers expect to find in their new homes.

While those expectations vary with price range and from region to region, the survey showed there are some interior features no move-up house should be without (chart right). They are: upgraded carpeting, dead bolt locks, a fireplace and hardwood flooring.

GAUGING THE RATINGS

1.0 to 1.9	Cool
2.0 to 2.9	Warm
3.0 to 3.9	Warmer
4.0 to 5.0	Hot

Buyers rated a range of features and products commonly found in new houses on a scale of one to five, with one being the least appealing and five being the most appealing.

The most popular features appear in boldface type.

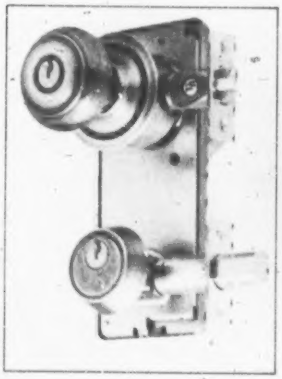
PLAN PREFERENCES

Plan type	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000
Single-story	36.1%	26.3%	19.0%	17.5%	23.2%
Two-story	**48.4**	**54.2**	**57.3**	**59.6**	**57.0**
Split-level	14.2	18.5	21.8	22.2	18.5
Other	1.3	1.0	1.9	0.7	1.3
Median expected square footage	1,869	1,980	2,364	2,463	2,882

THE INSIDE TRACK

Interior features	Less than $100,000	$100,000 to $150,000	$150,000 to $200,000	$200,000 to $250,000	More than $250,000	Favorite room for this feature
Upgraded carpeting	**4.50**	**4.47**	**4.48**	**4.62**	**4.52**	Master bedroom, living room, family room
Ceiling fan	**4.07**	3.80	3.72	3.82	3.67	Family room, master bedroom
Dead bolt locks	**4.55**	**4.49**	**4.45**	**4.53**	**4.48**	
Fireplace	**4.42**	**4.60**	**4.62**	**4.63**	**4.59**	Family room, living room
French doors	**4.05**	3.91	**4.00**	**4.07**	**4.27**	Family room, dining room
Sliding doors	3.07	3.17	3.30	3.46	3.40	Family room, dining room
Hardwood flooring	**4.01**	**4.01**	**4.07**	**4.29**	**4.26**	Dining room, family room, living room
Tile flooring	3.31	3.34	3.75	3.72	3.87	Foyer, master bath, kitchen
Greenhouse section (sunroom)	3.47	3.48	3.64	3.88	3.79	Family room
Greenhouse window	3.64	3.58	3.72	**4.08**	3.87	Kitchen
Recessed or track lighting	3.33	3.42	3.49	3.84	3.87	Family room
Decorative moldings	3.98	3.96	**4.02**	**4.13**	**4.19**	Dining room, living room, family room
Wood paneling	3.56	3.50	3.48	3.63	3.51	Family room
Security system	3.77	3.77	3.97	**4.14**	**4.24**	
Built-in shelving	3.90	3.89	3.97	**4.08**	**4.16**	Family room
Skylight	3.96	3.98	**4.08**	**4.39**	**4.28**	Master bath, kitchen
Step-up or step-down rooms	3.09	3.10	3.52	3.66	3.52	Living room
Central vacuum	3.23	3.15	3.24	3.40	3.57	
Vaulted ceilings	3.54	3.71	3.76	**4.11**	**4.07**	Living room, family room
Mirrored walls	2.76	2.72	2.91	3.33	3.20	Master bedroom
Wet bar	2.98	3.08	3.36	3.59	3.69	Family room
Window seat	3.58	3.44	3.55	3.78	3.57	Master bedroom

See accompanying rating scale



PLEASANT SURPRISES

Fireplaces, two-car garages and basements are bread and butter features in Denver, according to David Laffoon, marketing director of the Denver-based Writer Corp. So Writer's Country Meadows, which incorporates these and other features that many builders were offering only as options, must be considered a steak and potatoes project.

"Buyers in the $100,000 price range don't think they can afford a lot," said Laffoon. "They come in expecting to see the same old floor plans, the same elevations. Instead they're very surprised to find a private master bath or a loft" in the units at Country Meadows. Designed by Berkus Group Architects in Santa Barbara, the two and three-bedroom plans have from 1,200 to 1,800 square feet, excluding unfinished basement. Other builders may provide more square footage, Laffoon noted, but "buyers have seemed willing to give that up to get our extra features."

In addition to the fireplace, two-car garage and basement, the one and two-story and split-level houses also have dishwashers, skylights, upgrade carpeting and brick siding, all features that buyers want but don't often get in this price range. Wood is another material buyers associate with quality, said Laffoon. So Writer detailed the houses with wood windows and doors, stained wood railings and trim, and even cedar on closet floors.

Country Meadows buyers, couples in their thirties, also voiced concern about energy efficiency, Laffoon said. So, in addition to beefed-up insulation, Writer installed air infiltration barriers, a relatively inexpensive addition.

"We didn't include the features just because we saw a niche that could be filled," Laffoon explained. Before Country Meadows, the company's least expensive homes sold for around $150,000. "Despite the lower prices, we wanted to provide the same kind of quality in these homes."

Two-income households account for about 80 percent of the buyers at Country Meadows. Because of economical price tags, sales at the project have been split evenly between move-up and first-time buyers.

Country Meadows is located in the planned community of Green Valley Ranch, about 20 minutes from downtown Denver. Thirty of the first phase of 146 homes have sold for $92,500 to $105,000 since the project opened last May. A second phase of 133 homes also is planned.

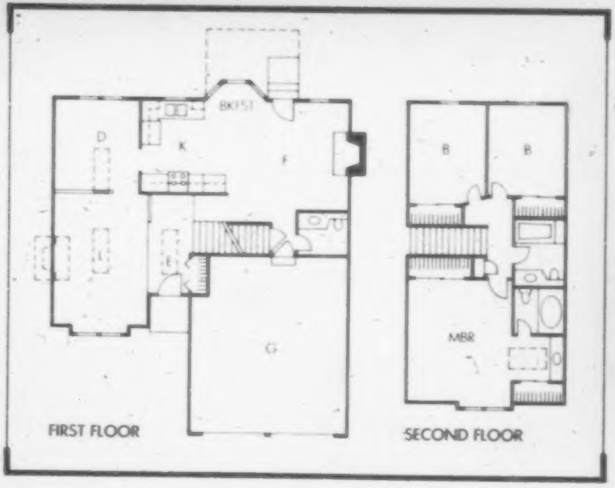
Photo: Randy Troute/Wm. Swartz Photography

Photos: Copyright Gifford Ewing

ON THE BUTTON

(Checklist shows which "hot button" features for housing priced less than $150,000 are offered either as standards or options at Country Meadows.)

	Standard	Optional
Exteriors		
Brick siding	☒	☐
Decorative wood doors	☒	☐
Two-car garage	☒	☐
Covered porch	☒	☐
Patio	☒	☐
Wood deck	☐	☒
Kitchen		
Wood-finish cabinetry	☒	☐
Eating area	☒	☐
Island work area	☐	☐
Microwave oven	☐	☒
Double-bowl sink	☒	☐
Walk-in pantry	☐	☐
Master suite		
Separate shower stall	☐	☐
Two sinks	☐	☒
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☐	☒
Dead bolt locks	☒	☐
Fireplace	☒	☐
French doors	☒	☐



Fireplaces, two-car garages, wood windows and trim and eating areas are standard at Country Meadows, where homes start at $92,500.

SOMETHING SPECIAL

Move-up buyers in the $150,000 to $200,000 range have had their fill of pork and beans housing. They're hungry for gourmet touches. River Run at Snow Creek provides them. "We have a lot of competition, so we pack our houses with features," says marketing manager Chuck Lockhart. "In the end, it's not any one thing but the entire package that sells a house."

Targeted toward families with an income of $50,000 or more, River Run is in a fast-growing area about 10 miles east of downtown Los Angeles. The builder, Shea Homes, put a greenbelt around the development and spent $1 million upgrading a 10-acre park with bike, horse and jogging trails, picnic areas and playing fields. Individual lots are large for California—each is about 10,000 square feet—and every house is on a cul-de-sac.

Contemporary designs by Berkus Group Architects at Newport Beach, Calif., have "more complicated contours and more architectural interest than most other homes in the price range," says Lockhart. There are four models, each with three elevations and three-car garages. Exteriors are stucco, with wood trim and concrete tile roofs.

Inside, the 1,800 to 2,400-square-foot floor plans combine the openness of vaulted ceilings and high-set angled or Palladian windows with well-defined living areas such as a formal dining room, breakfast nook and family room.

Adults and children have their own distinct spaces. "Kids can use their own bath without walking through common areas," says Lockhart. "They also have their own areas for studying, playing and entertaining." The two-story homes range from three bedrooms and two baths to four bedrooms and three baths. Each unit has between 120 and 210 square feet of raised hobby area off the three-car garage that can be converted into a workroom, home gym or storage space. "The house appeals to kids, and they help sell their parents," says Lockhart.

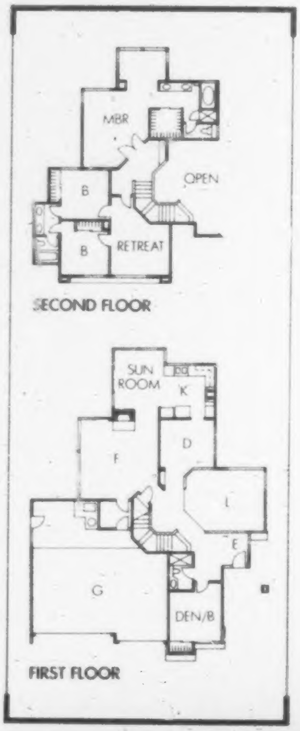
There are extras for parents, too. Standard are ceramic counter tops and ash cabinetry in the kitchen, and brass fixtures, oval tubs, and water-saving toilets and showers in the bath. Popular options are mirrored wardrobe doors and an intercom-music system.

River Run opened last June. Out of 49 homes in the first two phases, 42 have been sold. About 200 homes eventually will be built. Prices range from $163,000 to $214,000.

ON THE BUTTON

(Checklist shows which "hot button" features for housing priced from $150,000 to $200,000 are offered as either standards or options at River Run.)

	Standard	Optional
Exteriors		
Brick siding	☐	☐
Decorative wood doors	☒	☐
Three-car garage	☒	☐
Automatic garage door opener	☒	☐
Patio	☒	☐
Wood deck	☐	☐
Kitchen		
Wood-finish cabinetry	☒	☐
Eating area	☒	☐
Microwave oven	☒	☐
Double-bowl sink	☒	☐
Walk-in pantry	☒	☐
Master suite		
Ceramic tile flooring	☐	☐
Separate shower enclosure	☒	☐
Two sinks	☒	☐
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☒	☐
Dead bolt locks	☒	☐
Fireplace	☒	☐



Photos: Copyright 1984 Robb Miller

A dramatic angled staircase punctuates the living room's soaring space (below). Parquet floors and a fireplace are extra attractions.

Gables and half-Palladian windows give River Run homes added curb appeal (left). Hot features in this kitchen-breakfast nook (above) are a greenhouse window, wood cabinets, hardwood floors, double doors and a work island with built-in grill and cook top.

EVERYTHING INCLUDED

Buyers moving up to Stoneybrook in the planned community of Mission Viejo in Southern California don't just want a house. They're looking for space, architectural excitement and amenities.

Stoneybrook's five models are large—from 2,200 to 3,100 square feet—and are all two-story. Floor plans are flexible. A variety of den, loft and bonus-room arrangements have been mixed with three and four bedrooms, three baths and separate living, family and dining areas.

Almost every feature a move-up buyer might want is standard. "We're in a highly competitive marketplace, and all of the features are necessary," says marketing manager Kathi Pepka. Designs by Berkus Group Architects at Newport Beach, Calif., are classic California, with ceramic tile or wood entries, solid oak cabinetry, brass fixtures and greenhouse and half-Palladian windows. Fireplaces are finished with oak, marble, river rock or stone. Double or triple garages are standard. Optional appointments include second fireplaces, built-in wet bars and whirlpool tubs in the master bath.

Stoneybrook is in Canyon Crest, a controlled-access community scheduled to grow to 1,000 homes over the next 10 years. The builder, Mission Viejo Company, has wired each house in Stoneybrook to a central security system located at the gatehouse. "That has proved to be our number one attraction for buyers," says Pepka.

Plentiful recreational facilities also are a big draw. There's a $2 million recreation center with a meeting or party room, TV and game room, exercise studio, pool, spa and four tennis courts.

The first phase of Stoneybrook opened last September. Of the 189 units planned, 67 have been offered for sale and 46 have been sold. Prices range from $215,000 to $260,000. Most buyers have been married couples with a combined family income of over $70,000.

Stoneybrook buyers automatically become members of the Mission Viejo Lake Association, allowing them to swim, fish or sail in the 124-acre lake, or sun at the private Playa del Norte beach. There are also public and private golf courses nearby.

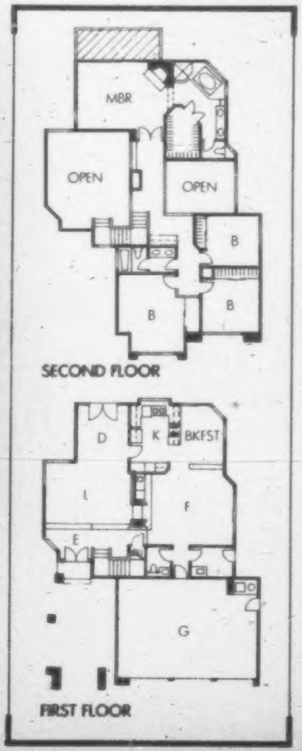
Form (a curved, sculptural staircase) and function (low-maintenance ceramic tile and wall-to-wall carpeting) are the living room's hot buttons (left). A separate shower stall, oval tub and double sinks are standouts in this black-tiled bathroom (above right). The Silverwood model has a three-car garage and dramatic entrance and roof line (right).

ON THE BUTTON

(Checklist shows which "hot button" features for housing priced from $200,000 to $250,000 are offered either as standards or options at Stoneybrook.)

	Standard	Optional
Exteriors		
Brick siding	☒	☐
Decorative wood doors	☒	☐
Wood windows	☐	☐
Automatic garage door opener	☒	☐
Patio	☐	☒
Wood deck	☒	☐
Upgraded landscaping	☐	☐
Kitchen		
Wood-finish cabinetry	☒	☐
Eating area	☒	☐
Microwave oven	☒	☐
Double oven	☒	☐
Double-bowl sink	☒	☐
Master suite		
Separate shower stall	☒	☐
Two sinks	☒	☐
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☐	☒
Dead bolt locks	☒	☐
Fireplace	☒	☐

Photos: Copyright 1984 Robb Miller

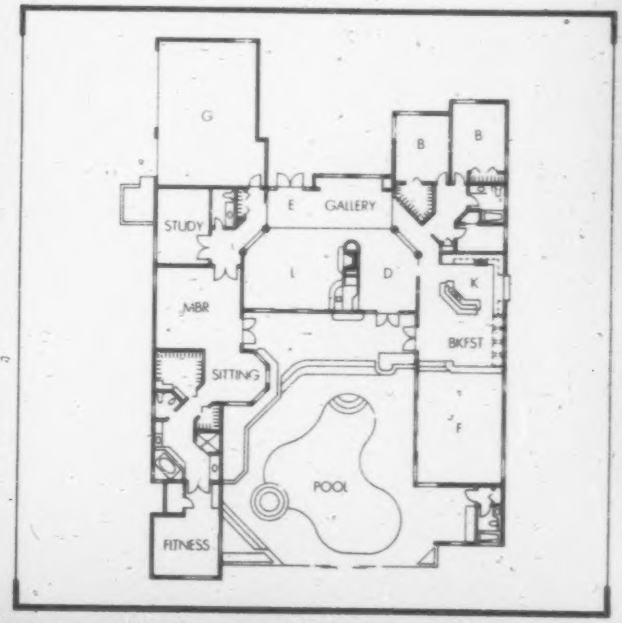

MBR
OPEN
OPEN
B
B
B
SECOND FLOOR
D
K
BKFST
L
F
E
G
FIRST FLOOR

A stone fireplace with built-in wood bin is the focal point of the family room (above). An unusual ceiling treatment adds interest.

ON THE BUTTON

(Checklist shows which "hot button" features for housing priced more than $250,000 are offered either as standards or options at Huntington.)

	Standard	Optional
Exteriors		
Brick siding	☒	☐
Decorative wood doors	☒	☐
Three-car garage	☒	☐
Automatic garage door opener	☒	☐
Lawn sprinkler system	☒	☐
Upgraded landscaping	☒	☐
Kitchen		
Wood-finish cabinetry	☐	☒
Eating area	☒	☐
Microwave oven	☒	☐
Double oven	☒	☐
Double-bowl sink	☒	☐
Walk-in pantry	☒	☐
Master suite		
Ceramic tile flooring	☐	☒
Separate shower stall	☒	☐
Two sinks	☒	☐
Ceramic tile walls	☒	☐
Dressing area	☒	☐
Walk-in closet	☒	☐
Interior features		
Upgraded carpeting	☐	☒
Dead bolt locks	☒	☐
Fireplace	☒	☐



Ceramic tile, upgraded landscaping, pool and wet bar are only part of the package at Huntington, where buyers customize their homes to match their hobbies.

Photos: Michael Norton Studio

SATISFACTION GUARANTEED

The sky's not always the limit, even in the rarefied atmosphere of half-million-dollar homes. "Believe it or not, buyers in this price range have budgets," said Raja Jaghab, managing partner with Rutenberg-Jaghab, Ltd., the builder of Huntington, in Safety Harbor, Fla. "There's a limit to what they perceive as valuable." To play on those perceptions, the Clearwater, Fla., company (a franchise of Arthur Rutenberg Corp.) built in big-ticket features that couldn't fail to impress—like wet bars and pools with decks—and then let buyers customize to their heart's content.

The project's identity was built on brick. "It's a little different from what we usually do, and it's definitely seen as a quality product," said Jaghab. Used on exteriors and in the entry gatehouse and security wall that rings the 40-acre project, the brick also sets a traditional architectural theme.

The three and four-bedroom, three-and-a-half-bath models designed by Rutenberg architect Thomas M. Kruempelstaedter start at $400,000. Each includes 3,000 to 4,600 square feet of floor space and another 1,000 square feet of decks and porches.

Every house has $30,000 in standard features, including a landscaping package, decorative driveway treatment, security system and concrete roof tile. The buyers—married professionals and business owners with school-age children—take it from there.

"What people choose to do depends a lot on their hobbies," noted Jaghab. "They spend money on their special interests. One husband was into cooking. So we outfitted the kitchen with commercial-grade equipment."

Much more common, admits Jaghab, is a request for a whirlpool tub in the master bath. Buyers also have upgraded formal areas with marble tile and family areas and bedrooms with ceramic tile. Some have added intercoms or central vacuum systems. And there have been requests for custom lighting, built-in shelves and desks, stained glass in entries and baths, and mirrored wall treatments in living and dining rooms. In addition to these options, an outdoor barbecue center and a fitness center with sauna can be added.

Since sales began last October, seven of Huntington's 50 houses have sold for an average price of $450,000.

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BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS

MAY 1985

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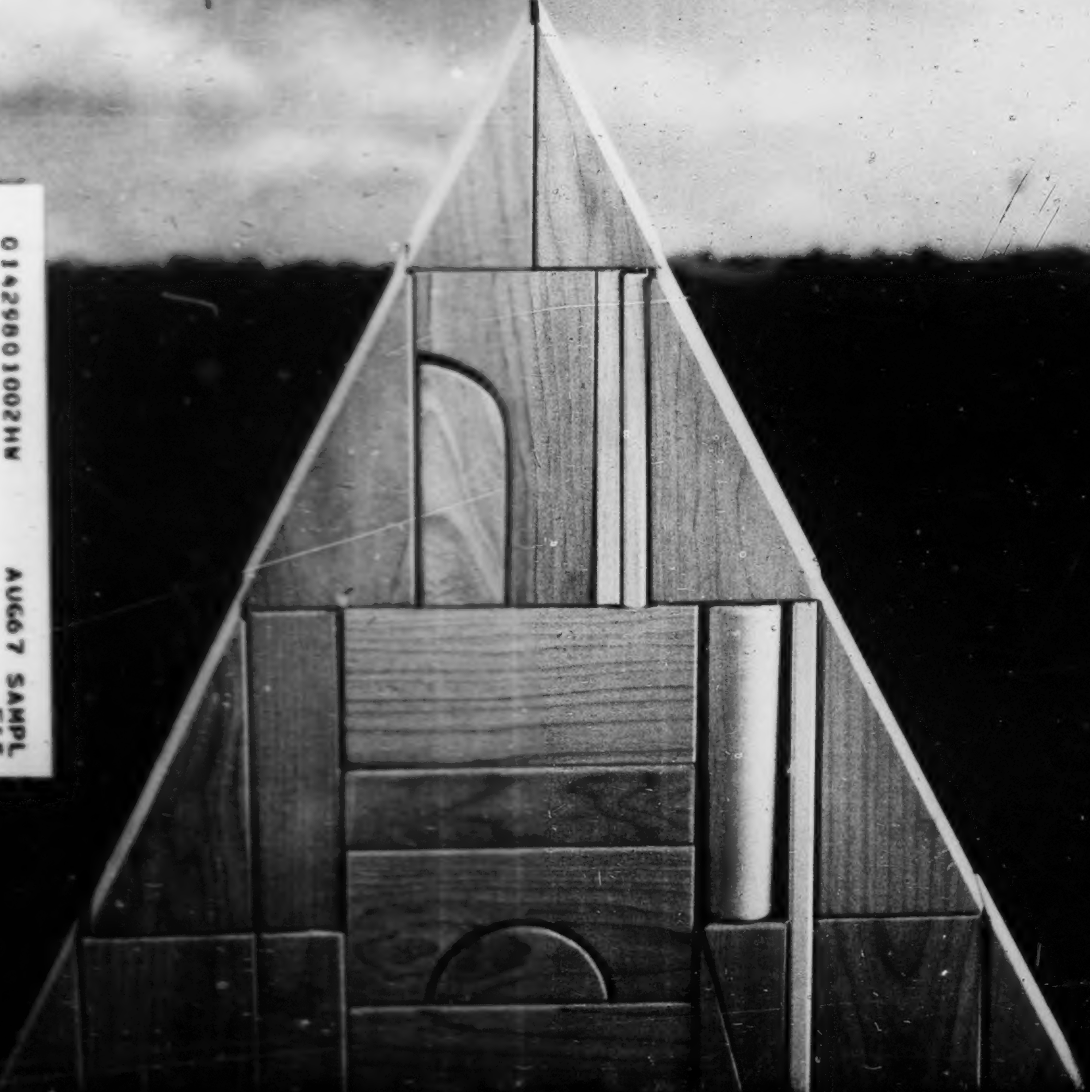


VOLUME 8, NUMBER 5 ■ MAY 1985

BUILDER

COLUMNS

5 About Building
19 Money
26 Washington
30 Marketing
42 Strategy

DEPARTMENTS

11 Outlook
188 Sketchbook
193 Shoptalk
205 NAHB Report
216 New Products
230 Product News
254 Ad Index
256 Mail

NEWS

68 First hot, then cold rental market expected to return to about normal
69 Artsy approach lures luxury buyers
72 U.S. won't turn into nation of renters
74 Blue light special: home mortgages "to go"
74 Energy saver program gets lender support
80 Industry leaders get Horatio Alger awards
80 Centex reorganizes, streamlines operations
90 Inflation brakes brokers' income
90 Presto chango: from swampland to oasis
92 Joint venture with S&L gives builder new life
92 It's in the stars
98 Ryan first on block with computer system
98 60 million housing starts since WWII
100 Starts strong through second quarter
116 Sales are brisk at Southwest Crossing
116 He does it the old way: by hand
120 Patience pays off for move-up builder
126 General Development sold to VMS Realty
126 Homeownership dream alive and well in U.S.
126 Rah-rah retirees
130 Short on space, long on luxury
132 Proving it's nice not to fool mother nature
136 Components catch on with builders
136 New rules restrict S&L investment activities

45 Advertising supplement: ceramic tile

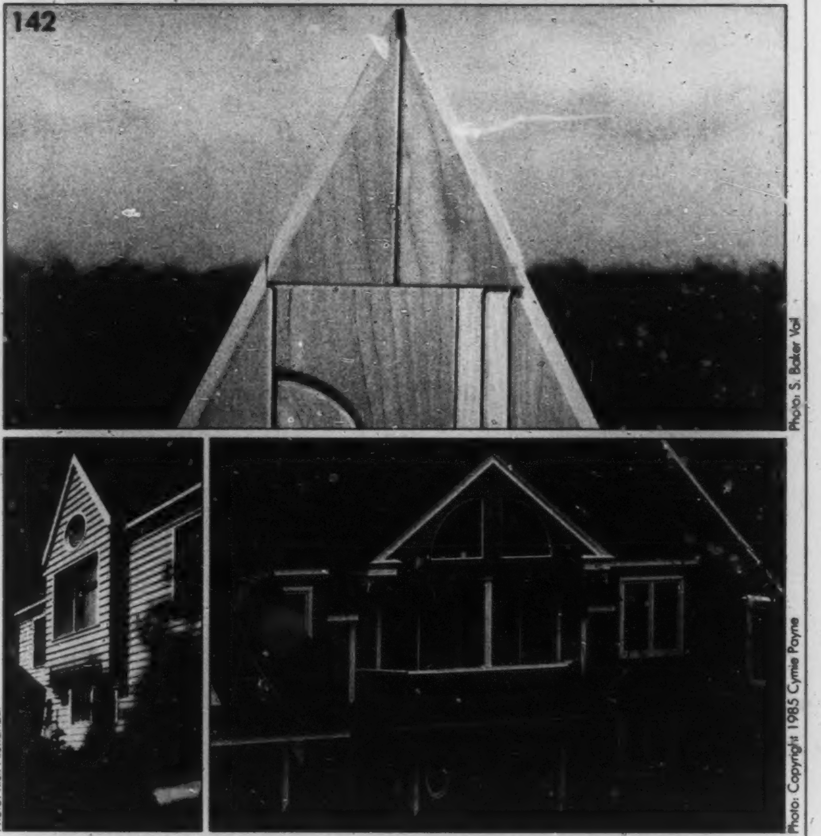


Photo: S. Baker Vail

Photo: Rick Alexander

Photo: Copyright 1985 Cymie Payne

142—BUILDER 100

They're the biggest of the big builders: The 100 home building firms that started the most new houses last year. All told they accounted for 16 percent of total 1984 housing starts. And from all accounts, it looks like the big will get even bigger this year.

(Cover design: Steve Phillips Design Inc. Photo: S. Baker Vail)

168—PLAY HOUSES

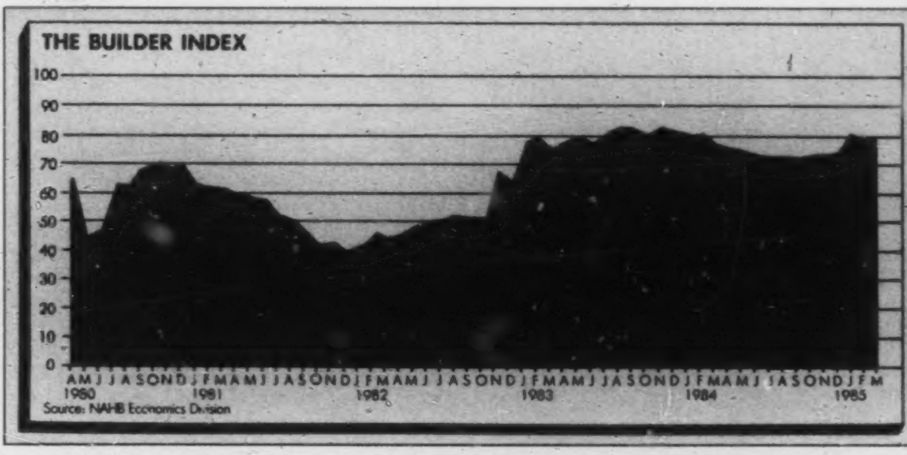
Proposed tax reforms would take some of the fun out of resort housing. But for now the market is strong, and the best-selling projects have an appropriately playful feeling about them.

180—PROJECT OF THE MONTH

Can a lake surrounded by crackerbox cottages be the right spot for $200,000 condos? Massachusetts builder Robert Cole thought so, and his Eastern Point project near Worcester is proving him right.

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

The BUILDER Index declined very slightly in March to 80.00, relfecting slightly lower expectations by builders.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Rental Dilemma

Michael Sumichrast
NAHB chief economist, Washington, D.C

The outlook for multifamily housing clearly depends on what happens to the tax simplification proposal. If it is accepted in the form the Treasury proposed, multifamily starts will suffer their sharpest postwar decline. If the proposal is rejected or modified a great deal, then there's a good chance multifamily will have a relatively good year. (A good year would mean about 600,000 starts, compared to the 665,400 new units started last year. It also would be better than average annual multifamily starts between 1974 and 1982.)

But, for clarification, let's define what is meant by multifamily sector.

Most people have a misconception: Namely, that the multifamily market includes only rental units. That's not true.

Look at the table that accompanies this column. It shows that rentals generally account for only about 60 percent of total multifamily starts. (As for total multifamily starts, they have represented anywhere from 23 to 38 percent of total housing starts.)

The share of multifamily starts that rental units accounted for was at its peak from 1975 through 1978, declined sharply from 1979 through 1981 then rose again to close to peak levels of the late 1970s.

Why the rebound in rentals? There's no easy explanation. Many factors have been at play including:

- The 1981 tax change;
- The fact that rent increases after trailing inflation through the 1970s took a big jump in 1980. Increases, in fact, were at double digit rates between 1980-82;
- A shortage of rentals due to little new construction and the conversion of rental units to condominiums;
- The affordability crisis, which pushed a lot of young people into rentals;
- Slower price appreciation of homes; and

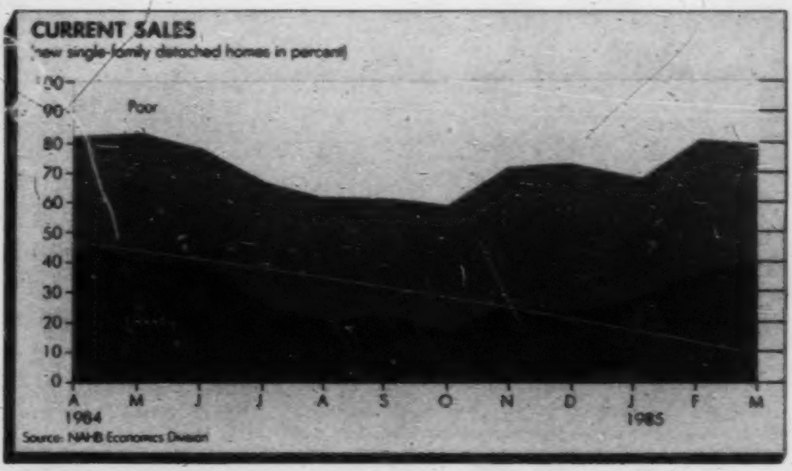
CONTINUED ON PAGE 13

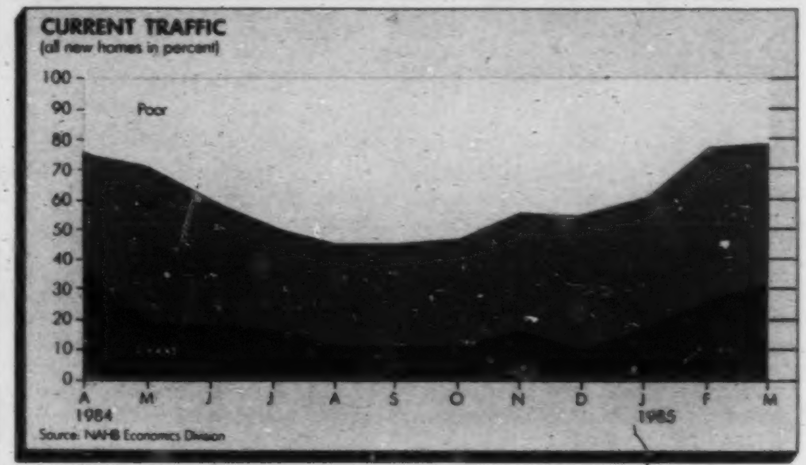
THE COMPOSITION OF MULTIFAMILY STARTS, 1975-1986
(in thousands of units)

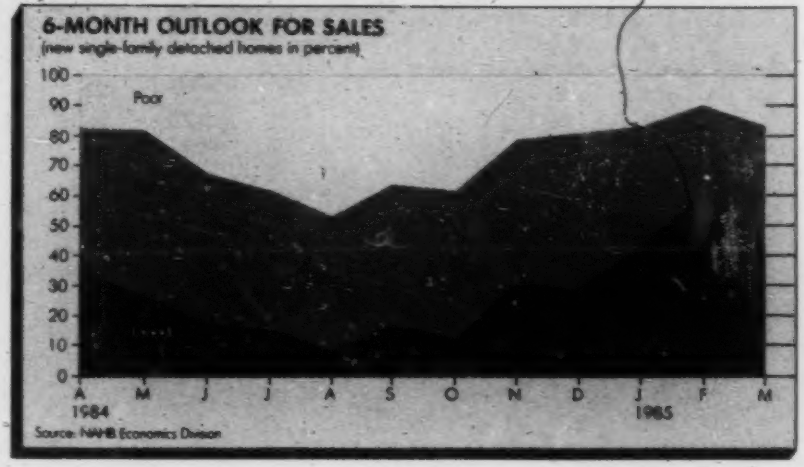
	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Total private starts	**1,160.5**	**1,537.5**	**1,987.0**	**2,020.3**	**1,745.1**	**1,292.2**	**1,084.2**	**1,062.2**	**1,703.1**	**1,747.2**	**1,645.7**	**1,563.7**
Single-family	892.2	1,162.4	1,450.9	1,433.3	1,194.1	852.2	705.4	662.6	1,067.6	1,082.5	1,044.8	1,019.0
Multifamily	268.3	375.1	536.1	587.0	551.0	440.0	378.8	399.6	635.5	664.7	600.9	544.7
5+ Rentals	178.3	251.2	357.4	373.0	303.0	212.2	166.7	205.6	350.0	377.5	378.4	341.5
Rentals as percent of total multifamily	66%	67%	66%	64%	55%	48%	44%	51%	55%	57%	63%	63%

Source: Census Bureau, U.S. Department of HUD; NAHB Forecasting Service; compilation by NAHB Economics Division.

OUTLOOK/BUILDER POLL


CURRENT SALES
(new single-family detached homes in percent)
Source: NAHB Economics Division


CURRENT TRAFFIC
(all new homes in percent)
Source: NAHB Economics Division


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)
Source: NAHB Economics Division

MIXED MESSAGES

The March BUILDER Poll shows significant improvement in both current single-family home sales (top chart) and traffic of prospective buyers (middle chart), but a decided drop in builders' six-month expectations for home sales (bottom chart).

There are two possible explanations for the dramatic drop. One would be to argue that the gaudy February poll results were more or less a fluke.

In February some two-thirds of the builders polled said they expected the market to be good for at least six more months. A month later the percentage dropped to 44 percent—or to almost exactly what it had been in January. So the March and January figures may reflect the industry's mood more accurately.

The second explanation for the drop in expectations centers on fear of interest rate increases. And that fear not only explains the decline but also the surge in present sales activity. (Concerned about rates rising, buyers may be "buying now.")

An Oregon builder summed up the second explanation like this: "The market is hot; qualified buyers are out looking. They're afraid if they don't buy soon, interest rates will go up and lock them out for another two or three years.

"Most can't understand why rates won't stay down or drop even more, and they're concerned about ever being able to buy."

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

EXISTING HOME SALES DECLINE . . .

Existing single-family home sales declined 2.7% in February to an annual rate of 2.92 million units, the National Association of Realtors reported. However, February's resale pace was slightly better than a year earlier.

FORMER HUD SECRETARY DIES

Patricia Roberts Harris, secretary of the Department of Housing and Urban Development during the Carter administration, died of cancer on March 23 in Washington, D.C. She was 60. The daughter of a Pullman car waiter, Harris was the first black woman to serve in a cabinet post.

VA CEILING UP TO 13%

The ceiling interest rate for VA mortgages was increased to 13% from 12.5% on March 25 following the upturn in conventional rates beginning in mid-February. The VA rate had been at 12.5% since late November when it was cut from 13%. The latest increase at least reduced the number of discount points that had risen to as high as seven.

S&Ls PAY MORE FOR MONEY

S&Ls paid slightly more for money in the fourth quarter of last year than in the previous quarter, but the increase was more than offset by a rise in S&Ls' return on mortgages. According to statistics announced recently by the Federal Home Loan Bank Board, the cost of funds to FSLIC-insured institutions rose four basis points to 10.31% in the fourth quarter. At the same time, the return on mortgages increased seven basis points to 11.83%. That slightly widened the spread to 1.52%.

GM ENTERS MORTGAGE FIELD

General Motors Corporation could become the nation's second largest mortgage banker as a result of recent agreements with two mortgage banking companies. As part of the giant car company's diversification effort, G.M.'s auto financing arm, General Motors Acceptance Corp. (GMAC) is buying Philadelphia-based Colonial Mortgage Service Company, the seventh largest mortgage banking firm in the country, as well as the servicing rights to about $11 billion in mortgages from Norwest Mortgage Inc.

DELINQUENCY RATE DECLINES

The home mortgage delinquency rate, which hit a record high in the third quarter of 1984, declined slightly in the fourth quarter, the Mortgage Bankers Association reports. The rate dipped three basis points to 5.83%. The delinquency rate for FHA-insured loans fell the most—16 basis points to 7.41%. The delinquency rate on VA loans edged up one basis point to 6.62%, and the rate on conventional loans rose nine basis points to 4.11%.

DETACHED HOUSES BIGGER IN 1984

The median size of new single-family houses completed last year climbed to a record high as the move-up market strengthened. The median size of the 1.02 million houses completed increased by 40 square feet, or 3%, to 1,605 square feet, according to figures released recently by the Census Bureau. Unlike single-family houses, multifamily units completed last year were smaller than those completed in 1983. Median size declined by 23 square feet, or 2.6%, to 870 square feet.

BUYERS MORE DECISIVE

Home buyers spent less time shopping for a home in 1984 than the year before, according to a recent survey by Chicago Title Insurance Company. The typical buyer took 3.8 months to find a home last year versus 4.4 months in 1983. First-time buyers were much more decisive than a year earlier: average shopping time was 4.2 months, down from 5.7 months. Repeat buyers took about the same length of time—3.6 months.

CONTINUED FROM PAGE 11

- Tax-exempt revenue bonds, which last year supported construction of about 120,000 new rentals.

But while the rental market has shown new strength, it still is plagued by many problems. Interest rates, for example, are so high it's almost impossible to make a project for low and moderate-income residents pencil out. And even if builders can deal with the rates, finding a source for financing is difficult.

Building new units for middle-income wage earners requires substantial amounts of equity financing, which poses another problem. Joint ventures are one solution, but the capital from joint ventures usually carries market rate financing. And that makes it difficult to keep rents in the affordable range.

The proliferation of up-front fees is another problem. They've become widespread and make it even harder to pencil out new projects. Private placement syndications can reduce costs by providing up to 100 percent equity financing. But this has its drawbacks. In such deals investors cannot deduct mortgage interest.

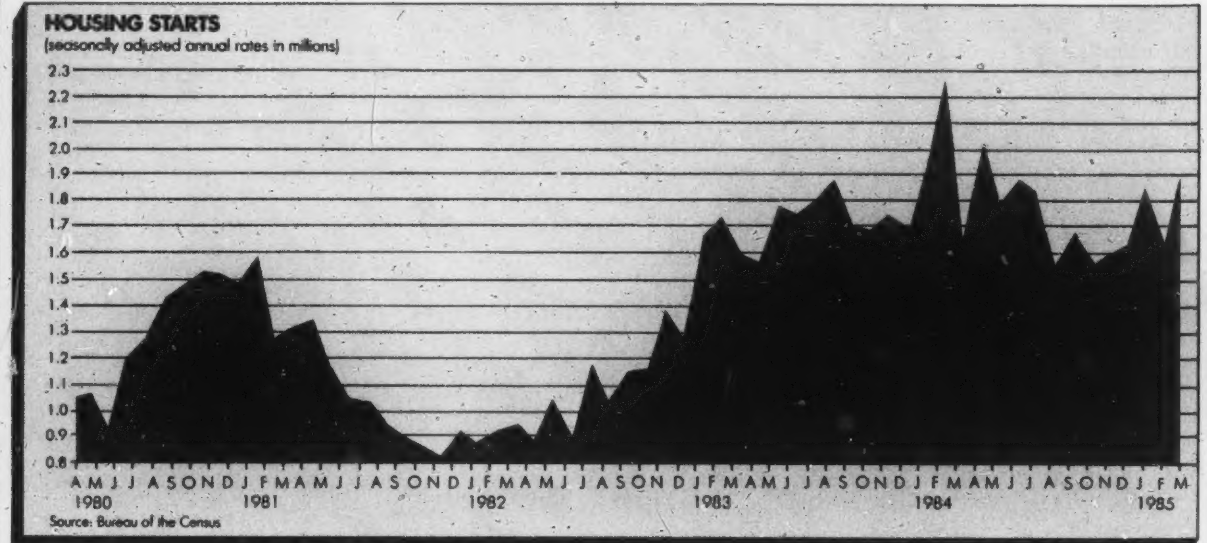
In spite of these constraints the luxury rental market is very active. This market almost always has been solid, but in numbers it really doesn't amount to much.

The bulk of the rental units must be built for medium-income households. And it's in this market that the affordability problem is most severe. Homeowners always have been more affluent than renters, but the gap is widening. In 1970, the typical renter earned 65 percent as much as the typical homeowner. By 1981 that percentage had declined to 52 percent and by 1983 to 51 percent.

What this means is that in relation to homeowners renters are worse off than they were before. And that means that a typical renter is less and less able to afford a typical rental unit, which is one reason for all the doubling-up of rental households.

As it is, with the help of tax-exempt revenue bonds, depreciation and other incentives, the rental market is holding its own and providing shelter for Americans who cannot afford to buy homes. But if the Treasury gets its way with its tax proposal, the new rental market would be all but wiped out.

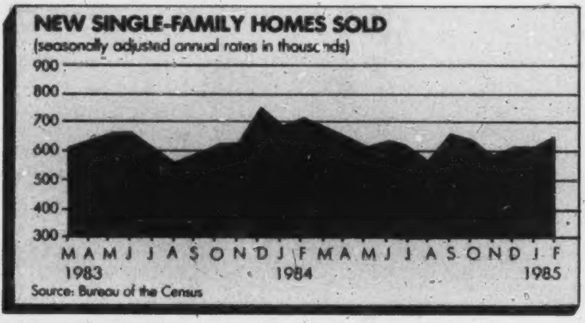
OUTLOOK/STATISTICS



HOUSING STARTS
(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

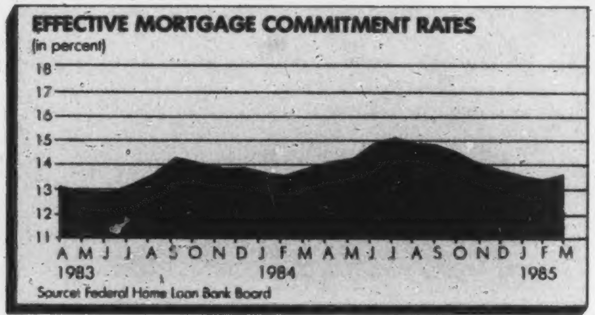
Starts jumped a surprising 16% in March to an annual rate of 1.9 million. Apartment starts accounted for most of the increase, surging 54% following a 39% plunge the month before. March's total starts rate was the highest since last April and 11.5% higher than a year earlier.



NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

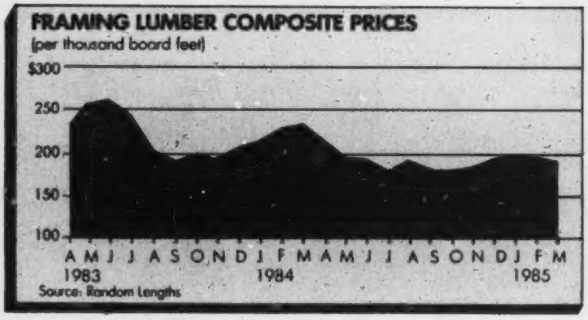
Sales rose 6% in February to an annual rate of 638,000 from a downwardly revised January rate. February sales were 8.9% lower than a year earlier.



EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

Source: Federal Home Loan Bank Board

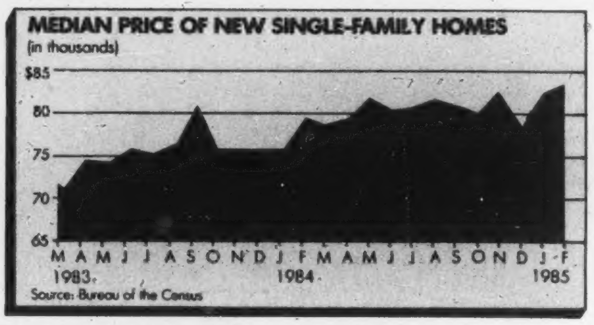
After declining for seven straight months, fixed rates rose 25 basis points in March to 13.70%. Uncapped adjustable rates slipped three basis points to 11.62% in March.



FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

For the second straight month lumber prices declined by 3%, falling in March to $187 per thousand board feet. The March price was 20% lower than a year earlier.

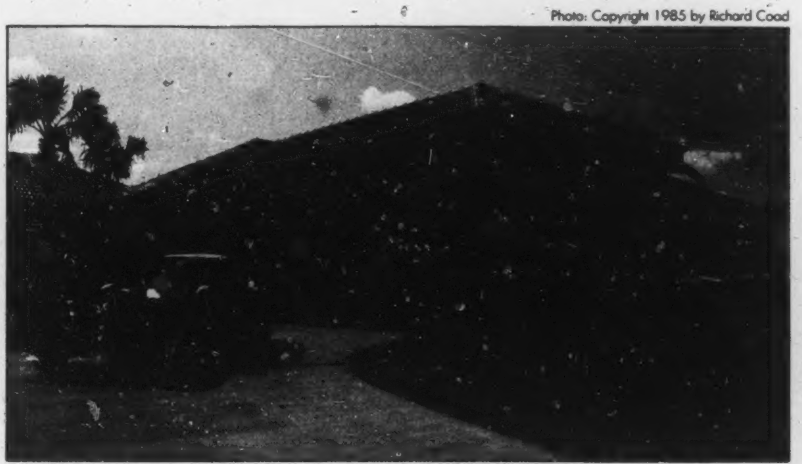


MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median sales price edged up 0.6%, or $500, in February to $83,100 from a downwardly revised January price. The February price was $3,900 or 5% higher than a year earlier.

Photo: Copyright 1985 by Richard Coad



A replica of an antique Mercedes 540 K Magnum and a 1985 Cadillac with a custom-designed interior grace the drive of a $525,000 mansion built by Rob Brohn Construction. The house sold during the two weeks of "Art in Architecture."

for architects' fees and miscellaneous expenses. The interior designers—Robb & Stucky, The Lili Corporation Unltd., Berta Hall & Associates, Joe-Hal Faughn and Betsy Godfrey Interiors—provided furnishings at cost for a silent auction at the close of the charity event.

"We decided to do something a little different from the usual parade of homes or designer show house," says Bonnie Sharp, coordinator for the event. "We got the architects, builders and designers working together as a team right from the beginning to create a total living environment." Enhancing that environment were the opulent props, such as works of art created especially for the houses by local artists, and Cadillacs with interiors custom-designed by each home's decorator. "Everyone worked together to give the homes different personalities while keeping the overall flow of design," says Sharp. "We wanted to show that a house can, and should be, an art form."

"Art in Architecture" ran for two weeks in February. It included tours, seminars, fashion shows and invitation-only brunches, lunches and dinners. In all, the event raised $56,000. Most of it will help fund the Orlando Regional Medical Center's proposed Children's Hospital and Perinatal Center. And about $5,000 will be used as seed money to establish a craftsmanship apprentice program. "We want to help craftsmen who want to learn the dying arts—fine stonework, or ornamental ironwork, or stained glass—for example," says Sharp. The program will be locally oriented and administered by a board of area architects, builders and interior designers.

Etched glass and French double doors open into the family room of the mansion built by Fuller & Associates. Berta Hall & Associates did the interior design.

"Most of the funds for next year's 'Art in Architecture' will be used for the apprentice program," says Sharp. She adds that enthusiasm for the event was so great that she's thinking of "packaging" the concept and selling it to developers in other cities. "After all, the proof of the pudding is in the selling," she says. "And the builders are thrilled—one house sold during the event, and there's a contract pending on another. The developer is happy too: during the 14-day event, five other Butler Bay houses and five lots were sold."

June Fletcher, features editor

MARKETING

U.S. WON'T TURN INTO NATION OF RENTERS

Although the various tax simplification proposals all would place an additional burden on the cost of homeownership, they won't turn America into a nation of renters, says William Apgar of the Harvard-MIT Joint Center for Urban Studies.

Apgar, who heads the center's Housing Futures Program, bases his contention on the program's latest survey of consumer attitudes taken in December. While the results have not yet been completely tabulated, he says preliminary indications are that those who maintain that ownership rates will fall if owners lose their precious tax deduction have "underestimated the tenacity of the American public in the pursuit of their ownership goals."

The Housing Futures Program, sponsored by a diverse group of companies and organizations interested in the long-term health of housing, monitors forces that shape the industry's future. To examine the importance of taxes on consumer attitudes about homeownership, the survey asked 3,130 owners who purchased single-family homes in the last year if they would have done so if the interest portion of their monthly mortgage payment were not deductible. Forty-six percent said they would.

Although interest deductibility for primary homes is not on the table as part of any of the three major tax reform proposals, Apgar believes that "the certainty with which (half) the respondents said yes suggests how important the ownership goal is. Evidently, they will dig in their heels and find the resources to buy a home anyway. That's a tribute to the importance of homeownership."

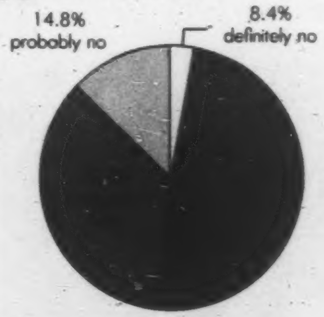
Only 23 percent said they would not or probably would not have purchased their homes without the deduction, but the percentage of negative responses rises to 33 percent in households age 30 or younger. Apgar interprets this to mean that tax reform would have its greatest effect on first-time buyers, not on higher-income, repeat homeowners. Most other forecasts have suggested that tampering with deductions would hit the move-up market hardest. (The remaining 30 percent said they *probably* would have purchased anyway. See pie chart.)

"Those in the upper-income levels would be hurt the most," Apgar explains, "but they have the strongest ability to overcome" the impact that tax reform would have on housing values. He warns, however, that younger households realize that "any significant change in the rules could substantially affect their ability to qualify for financing."

Lew Sichelman, a contributing editor to BUILDER

SURVEY OF SINGLE-FAMILY HOME BUYERS, 1984*

Would you have purchased your home if the interest rate portion of your monthly mortgage were not deductible?



*Total respondents numbered 3,130

Source: The Housing Futures Program of the Harvard-MIT Joint Center for Urban Studies

FINANCE

BLUE LIGHT SPECIAL: HOME MORTGAGES "TO GO"

It sells Smurfs. It sells socks. It sells pink plastic shower caps. And now, for the first time, it also sells home mortgages.

"It" is K-Mart, the nation's second largest retailer, with 1984 sales exceeding $20 billion. Early this year the discount department store signed agreements with five different companies to provide a variety of financial services in their outlets. Among them was Berg Enterprises, Inc., a New Jersey-based real estate firm, which will provide mortgage banking services through its subsidiary, Margaretten & Company.

Beginning next month, K-Mart will open mortgage desks in nine stores in New Jersey and four in Las Vegas. ("We picked Las Vegas because we can afford an extensive TV campaign there," says Chairman Kenneth Berg.) The desks will be linked by computer to full-service Margaretten offices. At no charge, a shopper will be able to get a computer printout telling him how large a mortgage he can afford and will be issued a Margaretten credit card. The card will indicate to brokers and bankers that he's already prequalified for a line of credit by Margaretten. But he's under no obligation to initiate a loan through Margaretten (and must go to a full-service office if he decides to.) If he does choose a Margaretten loan, he gets $150 in merchandise checks from K-Mart.

Right now few home buyers shop for mortgages directly, but K-Mart is banking on their customers' sense of familiarity with their stores to break down psychological barriers. "We've designed facilities so shoppers won't be intimidated," says Jon Hartman, assistant treasurer for K-Mart. "There's a counter area for casual conversation and a sitting area for privacy."

If all goes well, Margaretten also will institute a home equity loan program by the end of the year. "We'll offer very competitive rates—about 2 percent over prime," says Berg.

K-Mart shoppers in Chicago also will be able to initiate home equity and home improvement loans through USA Consumer Credit Corporation, which is starting a five-store pilot project for its installment loan business.

In offering its customers financial services, K-Mart is following the lead of Sears, Roebuck and Company. Sears sells insurance through Allstate, securities through Dean Witter Reynolds and real estate through Coldwell Banker.

"Our history is different from K-Mart's," says Sears Corporate Media Relations Director Douglas Fairweather. "They work out joint market agreements with companies. We acquire companies." Sears offers its customers mortgage money through its Sears Savings Bank (formerly Allstate Savings and Loan), but Fairweather says its real estate subsidiary "doesn't necessarily steer customers to them. There's no automatic link."

Sears does buy mortgage-backed securities from its own and other banks, which Dean Witter pools and sells to investors. And, they're keeping an eye on K-Mart's new venture. "We have no specific plans to expand our mortgage banking services at this time," says Fairweather. "But we're also not adverse to learning from competitors."

June Fletcher

ENERGY

ENERGY SAVER PROGRAM GETS LENDER SUPPORT

The Denver Homebuilders Association has developed a comprehensive set of energy guidelines that should make it easier for builders to qualify local buyers of energy-efficient homes. The program will kick off with a major publicity effort—assisted by the local utility—this summer or fall.

The guts of the new Colorado Energy $aver Homes Program (CE$) is its prescriptive list of energy-conserving features—called the Base Program—designed to reduce space heating bills by 50 percent compared to average new home construction practices. Three base program areas re-

ECONOMY

STARTS STRONG THROUGH SECOND QUARTER

The housing market is improving but it's not as hot as it was at this time last year.

Starts in metropolitan areas are expected to increase during the second quarter (April-June) compared with the previous two quarters but are expected to fall 14.5 percent from the steamy pace of last year's second quarter, according to NAHB's latest Quarterly Metropolitan Housing Starts Forecast.

The forecast, prepared by NAHB's economics division, estimates starts in 91 metropolitan areas throughout the country for the coming quarter.

The highest number of starts this quarter is expected in the Los Angeles-Anaheim-Riverside market, largely because the federal government has changed its definitions of a number of metro areas, adding territory to some, like Los Angeles, and taking it away from others.

Other top 10 metro areas for starts in the second quarter are, in order, Dallas-Fort Worth, Atlanta, Phoenix, San Diego, San Francisco-Oakland-San Jose, Tampa-St. Petersburg-Clearwater, Washington, D.C., Houston-Galveston and Denver-Boulder. But only San Diego and Tampa are forecast to have more starts this quarter than in the same period last year.

Second quarter starts will be higher in every region compared with the previous two quarters. But compared with the second quarter of 1984, only the North Central region will see a modest increase. The biggest decline from second quarter to second quarter is forecast for the South, down 18.5 percent.

During the same period, multifamily starts are forecast to drop nearly 23 percent and single-family starts are expected to dip 7.4 percent.

The data shown here include the number of starts in each metro area, arranged alphabetically by region, for the second, third and fourth quarters of 1984 and the first quarter of 1985 and projected starts for the second quarter of 1985.

Figures for the first quarter of this year also are estimates, as March starts were not available when the forecast was compiled.

The following tables also show the projected percentage change in starts between the second quarter of last year and the second quarter of this year.

Northeast

Starts in Northeast metro areas are forecast to fall 12.7 percent to 21,825 from second quarter to second quarter. However, that will be the highest level since the third quarter of 1984. Activity from second quarter to second quarter will decline in Boston and Philadelphia, increase in New York City, Pittsburgh and Rochester and hold steady in most other major markets.

South

Metro starts are expected to drop 18.5 percent in the second quarter to 123,291 compared with the robust second quarter of last year. Activity will be down in almost every major market. Only a few Florida cities—Lakeland-Winter Haven, Fort Lauderdale and

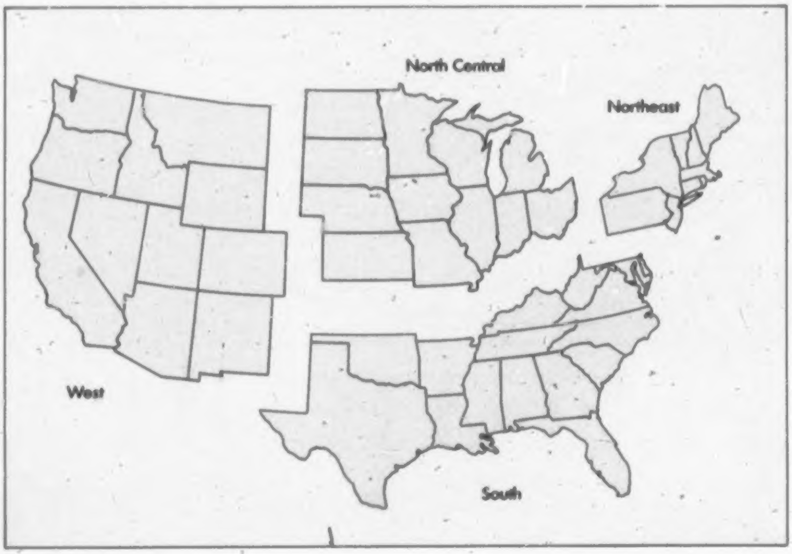
CONTINUED ON PAGE 104

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: UNITED STATES TOTAL

1984			1985		
Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
318,320	276,815	240,777	222,016	272,033	−14.5%

NOTE: The federal government has revised its definitions of the nation's Metropolitan Statistical Areas (MSAs), adding territory to many areas, subtracting it from some others. As a result, the starts figures for past quarters generally have been revised upward.

Source: Copyright National Association of Home Builders



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Daytona Beach—will be up significantly.

North Central

Starts in metro areas are projected to edge up 1.8 percent to 35,874 in the second quarter compared with a year earlier. Production will climb significantly in Kansas City, Cincinnati and Madison, Wis. In the long-depressed Detroit-Ann Arbor market starts will rise 10.5 percent. Steep drops are expected in Canton, Ohio, Kalamazoo, Mich., and St. Louis.

West

Metro starts are projected to decline 14.7 percent to 91,043 from second quarter to second quarter. Activity will drop substantially in Phoenix, Denver-Boulder, Tucson, Albuquerque and Salt Lake City-Ogden. Significant increases are forecast for only a few major markets, including Las Vegas, Portland-Vancouver and Sacramento.

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTHEAST

	1984			1985		
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
Northeast region total	25,005	25,585	21,789	13,941	21,825	−12.7%
Boston	2,975	3,000	3,200	1,425	2,650	−10.9
Buffalo-Niagara Falls	601	540	408	225	600	−0.2
Harrisburg, Pa.	425	525	450	300	425	0
Hartford, Conn.	1,260	1,305	885	775	1,250	−0.8
Nassau-Suffolk, N.Y.	2,520	1,455	2,515	1,475	2,370	−6.0
Newark, N.J.	1,431	1,198	1,550	850	1,450	1.3
Middlesex-Somerset-Hunterdon, N.J.	2,133	2,705	2,257	833	2,133	
New Haven-Meriden, Conn.	735	825	700	575	750	0
New York City	4,160	3,755	5,010	2,830	4,340	2.0
Philadelphia-Wilmington-Trenton	5,453	6,701	1,698	2,278	2,392	4.3
Pittsburgh	1,678	1,400	1,050	1,050	1,750	−56.1
Rhode Island	1,040	1,210	1,020	725	1,040	4.3
Rochester, N.Y.	594	966	1,046	600	675	0
						13.6

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: SOUTH

	1984			1985		
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
South region total	151,324	128,543	114,352	107,803	123,291	−18.5%
Atlanta	14,900	12,340	9,595	11,330	13,875	−6.9
Austin	7,823	5,141	3,831	2,890	3,300	−57.8
Baltimore	4,450	4,770	4,310	3,850	4,580	2.9
Birmingham, Ala.	699	461	375	330	500	−28.5
Bradenton, Fla.	870	870	660	680	930	6.9
Charleston, S.C.	2,519	1,449	2,367	1,400	1,000	−60.3
Charlotte-Gastonia-Rock Hill, N.C.-S.C.	2,001	1,465	2,184	2,050	1,850	−7.5
Dallas-Fort Worth	24,301	19,724	14,430	15,199	17,344	−28.6
Daytona Beach, Fla.	1,557	1,559	1,472	1,609	1,690	8.5
Delaware	963	1,295	1,166	550	800	−16.9
El Paso, Tex.	1,446	739	525	750	1,100	−23.9
Fort Lauderdale-Hollywood-Pompano Beach, Fla.	3,268	4,382	3,013	3,300	3,750	14.7

CONTINUED ON PAGE 106

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: SOUTH

CONTINUED FROM PAGE 104

	1984			1985		
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
Gainesville, Fla.	674	548	421	600	600	−11.0
Greenville-Spartanburg, S.C.	785	929	337	575	745	−5.1
Houston-Galveston-Brazoria	11,535	6,235	4,626	5,300	7,330	−36.5
Jacksonville, Fla.	3,162	2,760	2,000	1,700	1,700	−46.2
Knoxville, Tenn.	800	530	450	950	1,210	51.3
Lakeland-Winter Haven, Fla.	869	800	879	959	1,012	16.5
Little Rock-North Little Rock, Ark.	1,360	1,017	555	650	865	−36.4
Memphis	2,717	2,093	2,083	1,700	2,400	−11.7
Miami-Hialeah	4,101	4,404	2,893	3,100	3,700	−9.8
Nashville	5,470	3,446	4,454	3,544	3,708	−32.2
New Orleans	2,854	2,293	1,205	1,600	2,000	−29.9
Norfolk-Va. Beach-Newport News, Va.	6,014	5,978	5,406	5,800	5,800	−3.6
Orlando, Fla.	6,230	5,830	4,360	4,870	5,000	−19.7
Raleigh-Durham, N.C.	3,813	4,126	7,090	3,850	3,900	2.3
Richmond-Petersburg, Va.	2,888	1,661	2,632	2,190	2,530	−12.4
Roanoke, Va.	525	460	475	346	236	−55.0
San Antonio	5,436	7,000	6,000	3,650	5,100	−6.2
Sarasota, Fla.	1,230	860	1,370	1,160	1,230	0
Tallahassee, Fla.	759	515	519	639	567	−25.3
Tampa-St. Petersburg-Clearwater	8,785	7,388	8,714	9,157	8,839	0.6
Tulsa	1,407	771	617	525	500	−64.5
Washington, D.C.	9,496	8,994	8,087	5,800	8,000	−15.8
West Palm Beach-Boca Raton-Delray Beach, Fla.	5,617	5,710	5,251	5,200	5,600	−0.3

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTH CENTRAL

	1984			1985		
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
North Central region	35,252	32,309	26,423	20,163	35,874	1.8
Akron	805	521	405	345	675	−16.1
Canton, Ohio	574	158	130	150	380	−33.8
Chicago-Gary Lake Co.	6,815	5,705	4,535	3,300	6,400	−6.1
Cincinnati-Hamilton	1,380	1,700	1,550	1,200	1,600	15.9
Cleveland	1,255	972	401	567	1,200	−4.4
Columbus, Ohio	2,011	1,395	1,174	1,421	1,959	−2.6
Dayton-Springfield	575	675	390	200	650	13.0
Detroit-Ann Arbor	4,208	2,679	3,669	2,000	4,650	10.5
Evansville, Ind.	520	391	340	225	525	1.0
Flint, Mich.	251	247	329	70	220	−12.4
Indianapolis	1,147	1,969	1,043	650	1,100	−4.1

CONTINUED ON PAGE 112

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: NORTH CENTRAL

CONTINUED FROM PAGE 108

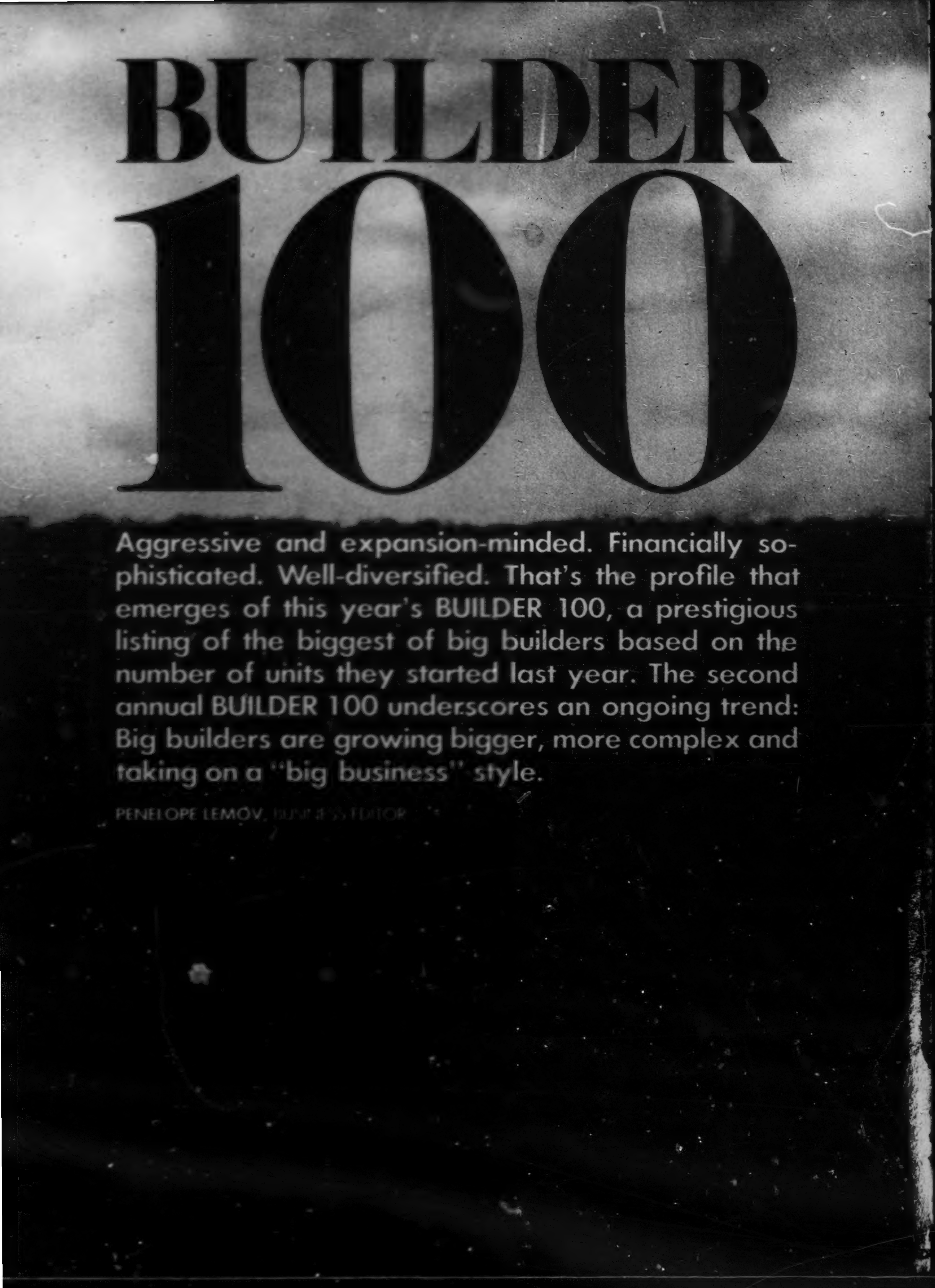
	1984			1985		
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
Kalamazoo, Mich.	275	275	200	150	225	−18.2
Kansas City, Mo.	3,200	3,570	3,220	3,200	3,900	21.9
Madison, Wis.	470	425	555	325	550	17.0
Milwaukee-Racine	1,069	898	632	520	1,050	−1.8
Minneapolis-St. Paul	5,700	5,200	4,100	3,100	6,300	10.5
St. Louis	3,090	3,880	2,200	2,060	2,680	−13.3
Springfield, Ill.	138	143	90	150	110	−20.3
Toledo	529	413	197	200	500	−5.5
Wichita, Kans.	1,240	1,093	1,263	530	1,060	−14.5

Source: Copyright National Association of Home Builders

QUARTERLY METROPOLITAN HOUSING STARTS FORECAST: WEST

	1984			1985		
	Second quarter	Third quarter	Fourth quarter	First quarter	Second quarter	Percent change second quarter 1984 to second quarter 1985
West region total	106,739	90,378	78,213	80,109	91,043	−14.7
Albuquerque	2,416	1,942	1,376	1,330	1,000	−58.6
Anchorage	1,716	1,299	633	800	1,600	−6.8
Bakersfield, Calif.	1,335	862	1,290	1,360	1,420	6.4
Boise City, Idaho.	438	327	246	256	378	−13.7
Colorado Springs	3,452	1,614	1,875	1,250	2,850	−17.4
Denver-Boulder	8,393	5,289	6,490	5,946	6,411	−23.6
Fresno, Calif.	1,325	2,162	1,181	750	1,300	−1.9
Hawaii	1,722	1,225	1,361	650	1,650	−4.2
Las Vegas	1,980	983	2,251	1,700	2,250	13.6
Los Angeles-Anaheim-Riverside	26,370	22,200	18,297	22,650	22,650	−14.1
Modesto, Calif.	1,000	650	450	550	600	−40.0
Phoenix	15,700	14,600	12,200	12,500	11,500	−26.8
Portland-Vancouver, Ore.	1,531	1,408	1,282	1,350	1,730	13.0
Sacramento	2,971	3,089	3,381	2,575	3,400	14.4
Salem, Ore.	146	201	157	160	205	40.4
Salt Lake City-Ogden	4,466	4,065	2,714	1,632	2,729	−38.9
San Diego	9,961	8,955	6,842	8,600	10,325	3.7
San Francisco-Oakland-San Jose	10,703	8,984	7,600	8,000	9,500	−11.2
Sonja Barbara-Santa Maria-Lompoc	543	600	630	600	700	28.9
Seattle-Tacoma	5,260	5,640	4,310	4,200	5,080	−3.4
Spokane	577	645	216	245	360	−37.6
Stockton, Calif.	734	738	1,031	505	905	23.3
Tucson	4,000	2,900	2,400	2,500	2,500	−37.5

Source: Copyright National Association of Home Builders



BUILDER 100

Aggressive and expansion-minded. Financially sophisticated. Well-diversified. That's the profile that emerges of this year's BUILDER 100, a prestigious listing of the biggest of big builders based on the number of units they started last year. The second annual BUILDER 100 underscores an ongoing trend: Big builders are growing bigger, more complex and taking on a "big business" style.

PENELOPE LEMOV, BUSINESS EDITOR

As the 1984 on-again, off-again recovery twisted through the housing industry, it left big home builders—and especially the biggest of the big builders—in an increasingly strong position.

That's a point proven by the performance of the home building firms that qualified to be listed in the BUILDER 100. That elite group consists of the 100 biggest home building companies, and rank is determined by each company's total housing starts in 1984.

As it is, these 100 big builders accounted for 288,000 starts last year—38,000 more than in 1983—and in total controlled a whopping 16.5 share of the 1.7 million-unit 1984 housing market. Moreover they increased their share of the market by a stunning 12 percent over 1983. Multifamily builders among the BUILDER 100 were even more dominant, accounting for 175,000 of 665,000 starts, which represents a 26 percent share of market.

The overall gain in market share was not unexpected, given the unevenness of the 1984 economy. Though 1984 starts were almost level with those of 1983, 1984 starts peaked early in the year—reaching a 2.2 million level in January and February—and then turned dishearteningly down—to a 1.5 million level in August and November—as rising interest rates threatened the market's momentum. This kind of economic performance left in its wake instability, dislocation and considerable inventory.

As a whole, BUILDER 100 companies were better able to withstand the pressure. "Uncertain times favor the people with resources," observed Stephen Roulac, president of Stephen Roulac and Company, a San Francisco real estate advisory company.

"Competition is very tough in that environment and smaller companies were squeezed out in the short term," David Wilson, housing analyst with Wall Street's Shearson Lehman/American Express, agreed, adding that many big home building companies went to the equity or capital markets in 1983 to raise capital in preparation for 1984 operations. "Smaller companies didn't have that flexibility, so when interest rates rose in the second half of 1984, they were hit harder. They had to rely on construction loans and were at the mercy of the banks."

Overall growth in BUILDER 100 market share was accompanied by an increase in the size of BUILDER 100 companies—in other words, the big got bigger—and by expansion into new markets. For example, Hovnanian Enterprises, Red Bank, N.J., number 29, grew by acquiring a 49-percent share of a smaller New Jersey builder, Calton, Inc. Pacific Lighting Real Estate Group, Santa Ana, Calif., number 43, acquired Presley Companies of Newport Beach, Calif., and Frederick Development Corporation, which on its own had been ranked 96 in last year's BUILDER 100. Lennar Corporation, Miami, number 47, a company that builds primarily in Florida and Arizona, bought H. Miller & Sons, which builds in four Florida markets.

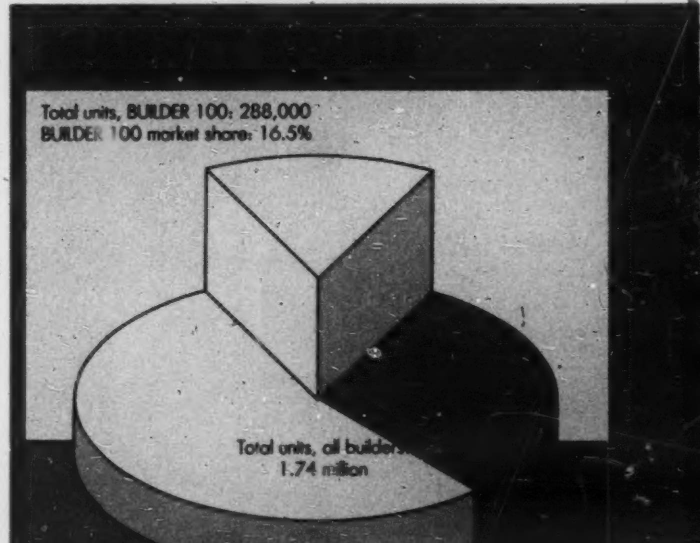
Some giant companies were also up for grabs. City Investing, the big New York-based company with three building company subsidiaries, tried to unload Denver-based Wood Bros., number 42.

A flurry of mergers, acquisitions and company sales is often a reflection of weakness among medium-size building companies. "When there's disarray in the markets, smaller companies find it less practical to go it alone, and they're more receptive to joining up with a big company," Roulac comments.

Most housing industry observers think the tendency toward consolidation within the industry will continue. Michael Drury, housing industry economist with Shilling and Company, a New York economic consulting firm, sees big companies actively seeking smaller companies. "It's part of an idea that big companies have that they have to be a certain size to penetrate a market," he noted.

In fact, for many BUILDER 100 companies, acquisitions were often a way to move into a new market quickly and in strength. Kevork Hovnanian, president and chairman of Hovnanian Enterprises, admits he is actively seeking another well-managed, medium-size company to give him access to another new market near his Red Bank headquarters. But, Hovnanian adds, "If we can't find the right company then we'll create a new division and operate it ourselves."

Whether it was by acquisition or by setting up a new division, BUILDER 100 companies aggressively expanded in 1984. In fact almost 60 percent of the companies moved into new markets last year, and of these two-thirds moved into two or more new markets. Cimarron Companies, number 63,



a Houston-based multifamily building company, for instance, moved into Norman, Okla.; Kansas City, Kan.; San Antonio and Mobile, Ala. The William Lyon Company, number 40, a single-family builder in Newport Beach, Calif., moved into four new California markets and one new Florida market. The king of the new entry sweepstakes, however, was Barnett-Range Corporation, number 23, a multifamily builder out of Stockton, Calif. Barnett-Range moved into 12 new markets in 1984.

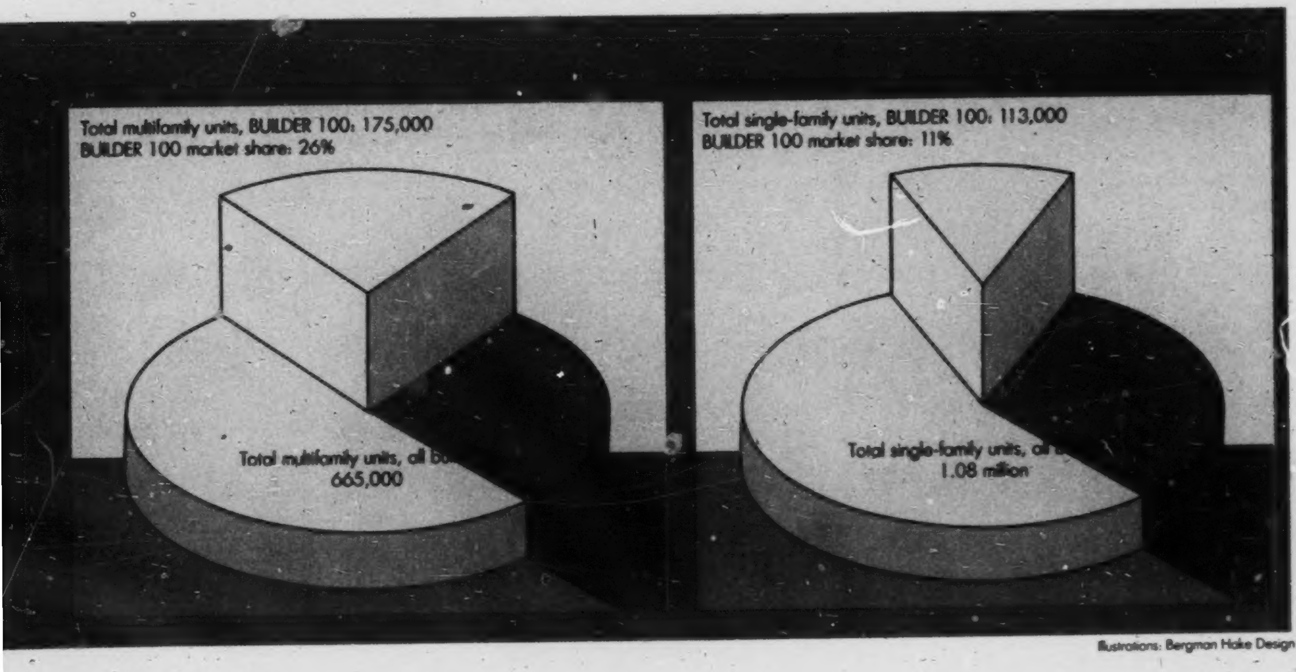
But moving into new markets didn't necessarily work out well for all big builders. Many of the big companies set their sights on the same hot market and moved in within months of each other. Orlando, for example, was a favorite target. Nine big builders who hadn't been active there two or three years ago hit the market in a big way. Wall Street analyst Wilson questioned whether they'd all do well: "These builders have to build 500-plus units to justify their presence," he said. "When that market turns down, it becomes extra competitive and everybody gets hurt."

Stephen Roulac claims that some big builders were afflicted by "me too-ism." Instead of doing their own careful market research, Roulac explains, they simply followed on the heels of office developers. "The home builders assumed there'd be housing demand because offices were going up, but in many cases the office developers didn't do good market research themselves, so the home builders ended up in trouble." A case in point was Houston.

The Houston connection was, in fact, devastating to many home builders, and the near collapse of that market hurt the profits of several BUILDER 100 companies. U.S. Home, number 4, the giant home builder based in Houston, suffered net losses and cut its stock dividend. The company traced many of its woes to the weak Houston market. Number 13 General Homes, also Houston-based and deeply entrenched in that market, slashed prices of its Houston inventory and earnings consequently suffered. The company would have reported a $900,000 loss in the fourth quarter of fiscal 1984 if not for substantial income from property sales.

Some big building companies also were threatened by unexpected changes in market dynamics. Where first-time home buyers fueled the 1983 recovery and the first half of the 1984 recovery, they were not as strong a force in the second half of the 1984 market and, observers agree, will not power the 1985 market. That affected and will affect many BUILDER 100 companies, which, as a rule, specialize in volume affordable housing. There's some question if big builders will be flexible enough to meet local market needs and to adjust to fast-changing demographics.

But a survey completed by 1984 BUILDER 100 companies suggests that the companies don't plan to stay stuck behind a first-time buyer eight ball. Of the 64 BUILDER 100 companies that reported building detached for-sale houses, 73 percent built for the first-time home buyer market, 78 percent also were in the move-up market, another 31 percent built luxury housing, 25 percent did retirement housing and 14 percent were active in the vacation market. Of 70 BUILDER 100 companies reporting they built attached housing, 74 percent had first-time home buyer products, 44 percent move-up, 30 percent luxury, 27 percent retirement and 17 percent vacation.



Illustrations: Bergman Hake Design

Last year also saw an acceleration of the trend toward diversification. Only a handful of the BUILDER 100 companies earned all of their revenue from home building while on average 66 percent of gross income came from home building. Property management, commercial development, land development and land sales added significantly to company coffers, as did syndication deals. For many, property management accounted for 10 to 20 percent of revenue and commercial development for 25 to 40 percent.

John Creighton, president of Weyerhaeuser Real Estate Corporation, number 17, whose Tacoma-based company implemented a diversification strategy in 1979 (see profile), noted that one activity often primed the pump for another. For instance, when commercial property is developed on a large tract, the rest of the tract usually becomes prime land for home building. "Because of this relationship, we felt commercial development would be a profitable business for us. And in the back of our minds, we also realized that though commercial development is based on a cycle, its cycle lags that of residential building. So doing both helps smooth out the ups and downs."

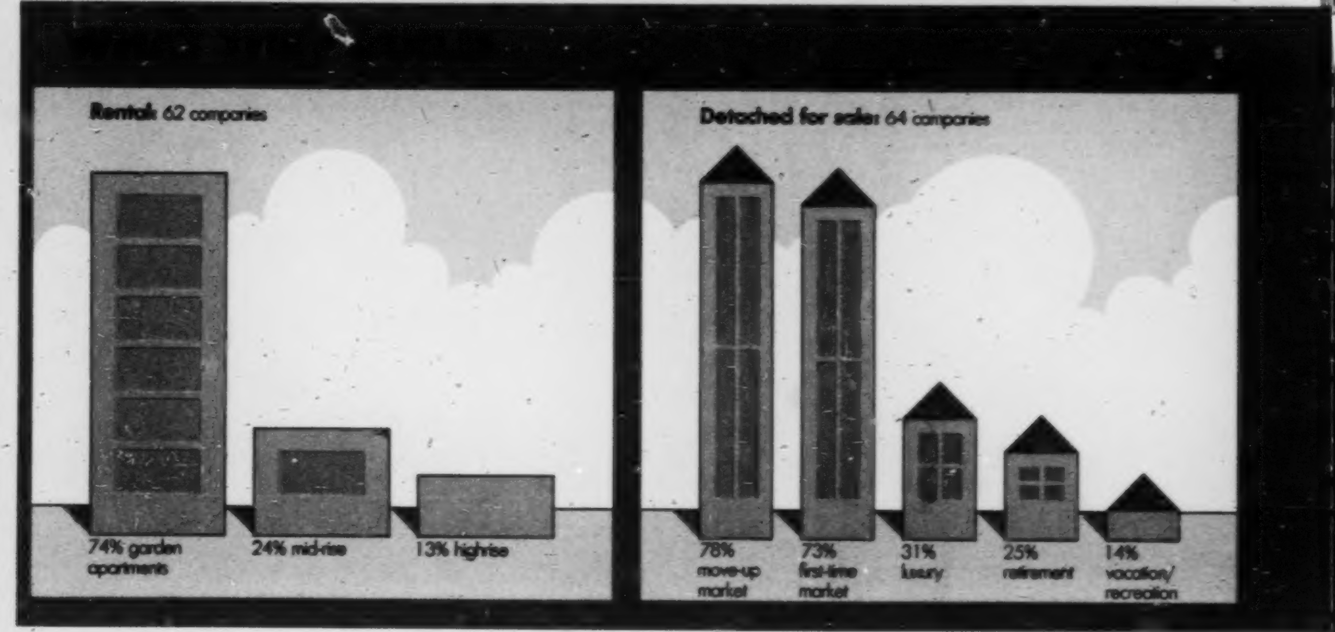
Creighton believes land development—which his company does and which, by necessity, includes long-term holding of large parcels of land through the approval and development stages—is not a feasible diversification for a smaller building company, but that commercial development is.

Where 1983 saw many big builders rush to go public, 1984 witnessed a reversal. In part this was due to normal stock cycles: Home building stocks rose in 1983 then fell in 1984. Hence, 1984 was not a good year to go public. But not only didn't big companies venture into that water, they swam the other way. Shapell Industries, number 82, headquartered in Beverly Hills, bought back its publicly held shares and went private. Ryan Homes, Pittsburgh, number 9, worked on a management buy-out but the attempt came to naught.

Public or private, BUILDER 100 companies continued to add to their financial expertise. Where only two BUILDER 100 companies reported owning savings and loan institutions in 1983, nine had control over one or more savings and loans in 1984. Phoenix's American Continental Corporation, number 33, for instance, bought Lincoln Savings and Loan Association, a California savings and loan with 25 branch offices and assets of $2.2 billion. Under American Continental's leadership, the savings and loan has been aggressively acquiring land.

BUILDER 100 companies also added to their mortgage banking capabilities. Where 22 reported having mortgage banking services in 1983, 31 reported the service in 1984. Some, like General Homes, see their mortgage capability as a means of servicing their buyers; others, like Weyerhaeuser, see it as a major profit center.

Meanwhile, financial institutions are vying for a piece of the home builder's pie by creating service corporations. Some of these service corporations limit themselves to seeking out joint ventures with home builders but others are becoming builders in their own rights. None of these service corporations accounted for enough direct development starts to enter BUILDER 100 ranks, but several are coming close. AmeriFirst Federal, a Florida financial institution, reported 786 starts in 12 Florida subdivisions in 1984. Of these, 95



percent were joint ventures in which AmeriFirst held a 60 to 90 percent share.

It took approximately 1,000 starts to make the BUILDER 100 this year. Number 100, the Vernon, James & Paul Smith Company, Dallas, built 988 single and multifamily units; last year's number 100, the Fieldstone Company, Newport Beach, built 646 in 1983 and, with 838 starts in 1984, failed to make the list. Many BUILDER 100 companies whose ranking fell in 1984 nonetheless built as many if not more units than in the previous year. Forest City Enterprises of Cleveland, for instance, increased starts by 12 percent but dropped from number 44 in 1983 to 58 in 1984.

At the top of the rankings there was also considerable movement. Lincoln Properties, a multifamily builder based in Dallas, took over first place with 14,000 starts, a 5-percent increase over 1983. U.S. Home dropped from first to fourth with a 28-percent decrease in starts. A.G. Spanos Construction, a Stockton, Calif.-based multifamily builder, edged into second place from last year's fourth. Pulte Home Corporation held its own in third place with an 8-percent decrease in starts. Twenty-six companies dropped from the BUILDER 100 ranks, making room for 26 newcomers.

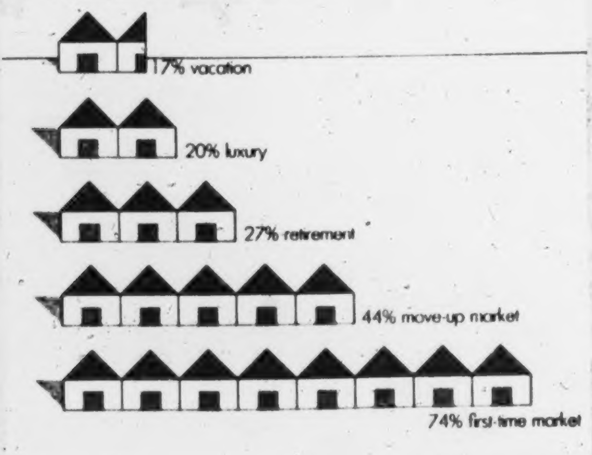
Though several names and even more places changed, this year's BUILDER 100 confirmed the movement of big builders toward construction and expansion and the continued squeeze this imposes on the medium-size builder. It also detailed, to a quantifiable degree, the areas in which big builders increased their competitive edge—namely, in financing capabilities, and in the ability to diversify and ride out, albeit in some pain, difficult times in specific markets.

TOP 30 MARKETS

WHERE THEY BUILD

STATE	COMPANIES	STATE	COMPANIES
Florida	51	Missouri	11
Texas	48	Nevada	10
California	39	Louisiana	9
Arizona	[illegible]	Pennsylvania	9
Colorado	25	Washington	9
North Carolina	[illegible]	Arkansas	8
Virginia	20	New Jersey	8
Georgia	19	Ohio	8
Oklahoma	19	Indiana	7
Tennessee	17	New York	7
Maryland	15	Utah	7
New Mexico	14	Washington, D.C.	7
Illinois	13	Alabama	6
South Carolina	13	Kansas	6
Kentucky	11	Michigan	6

Attached for sale: 70 companies



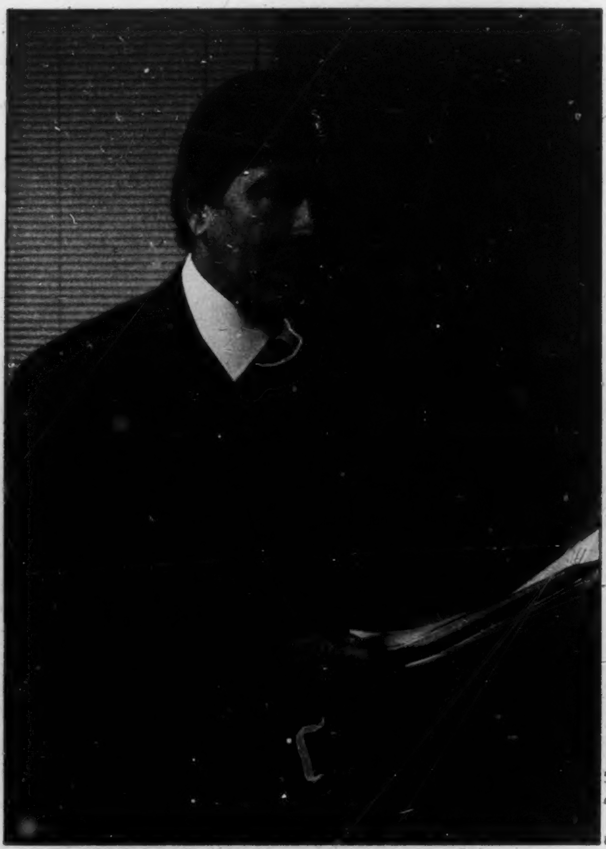


Photo: Paul Fromer

Our financial expertise, which has developed with changes in the market, makes us aggressive in creating opportunities for lower cost financing.

LEO E. ZICKLER, PRESIDENT AND CEO

OXFORD DEVELOPMENT CORPORATION

▲ When it comes to financial expertise, Oxford's sophistication rivals that of Wall Street's. In fact, the multifamily builder's Security Corp. is a Securities and Exchange Commission-registered dealer in private equity placements. But that's not all. Oxford apartment projects may use interest rate insurance, financial guaranty bonds, financial futures and interest rate swaps as part of their financing package. And Oxford was also a pioneer in creating a bond that floats at short-term tax-exempt rates. In short, Oxford's come a long way from the simpler days when Indianapolis was home base and the product and financing were simpler. Today, with headquarters in Bethesda, Md., seven regional offices and 1,000 employees, Oxford ranks number 5 in the Builder 100, coming off a 1984 that saw a 34-percent increase in gross revenue and 27-percent increase in starts.

	COMPANY
1 (2)	**Lincoln Property Company** Dallas Privately held
2 (4)	**A.G. Spanos Construction, Inc.** Stockton, Calif. Privately owned
3 (3)	**Pulte Home Corporation** West Bloomfield, Mich Publicly held
4 (1)	**U.S. Home Corporation** Houston Publicly held
5 (8)	**Oxford Development Corporation** Bethesda, Md. Privately owned
6	**Cardinal Industries, Inc.** Columbus, Ohio Privately owned
7 (17)	**American Diversified** Costa Mesa, Calif. Privately owned
8 (6)	**Jim Walter Homes, Inc.** Tampa Publicly held
9 (5)	**Ryan Homes, Inc.** Pittsburgh Publicly held
10 (14)	**Centex Corporation** Dallas Publicly held

OFFICER(S)	1984 HOUSING PRODUCTION				GROSS REVENUE (in millions)	MARKETS	DIVERSIFICATION
	Total units	Detached for-sale units	Attached for-sale units	Rental units			
Mack Pogue, *chairman and CEO*	**14,000**			14,000	$1,345	AZ, CA, CO, FL, GA, IL, LA, NV, NM, NC, OK, SC, TX, VA, WA	Property management, nonres, land development/sales, syndications
Alex Spanos, *chairman*	**13,340**			13,340	$719	AZ, CA, CO, FL, GA, KS, MO, NV, NM, OK, TN, TX, UT, WA	Property management, nonres, land development/sales, savings and loan, syndications
James Grosfeld, *chairman*	**11,008**	6,340	4,668		$839	AZ, CA, CO, FL, GA, IL, MD, TX, VA, PR	Mortgage financing
George H. Matters, *chairman and CEO*	**10,081**	6,349	3,732		$1,104	AL, AZ, AR, CA, CO, DE, FL, GA, ID, IL, KY, LA, MN, MS, MO, MD, NV, NJ, NM, OK, PA, SC, TN, TX, UT, VA, WA, WV, WY	Land development/sales, mortgage banking, factory-built housing, manufactured housing, lumber/materials dealer
Leo E. Zickler, *president and CEO*	**8,706**			8,706	$550	CA, CT, FL, GA, IL, IN, KY, MD, MI, NH, NY, NC, OH, PA, SC, TN, TX, VA	Property management, mortgage banking, investment banking, syndications, retirement care
Austin Gurlinger, *president and CEO*	**8,167**	540	342	7,285	$458	FL, GA, IN, KY, MD, MI, OH, PA, TN, WV	Property management, nonres, land development/sales, mortgage banking, insurance, factory-built housing, syndications
R. Sahni, *chairman*	**8,079**		577	7,502	$807	AZ, CA, CO, FL, GA, IL, NV, NY, OR, TN, TX, WA	Property management, nonres, land development/sales, rehab, mortgage banking, savings and loan, investment banking, syndications
Robert W. Michael, *president and CEO*	**7,809**	7,809			$303 (estimated)	AL, AZ, AR, FL; GA, KY, LA, MD, MS, NM, NC, OK, SC, TN, TX, VA, WV	Financial services
Malcolm Prine, *chairman and CEO*	**7,565**	4,210	3,355		$578	FL, GA, IN, KY, MD, NY, NC, OH, PA, TX, VA	Mortgage banking, factory-built housing
Frank M. Crossen, *chairman and CEO*	**6,500**	Breakdown not available			$1,200	AR, CA, CO, DC; FL, GA, IL, MN, NV, OK, TN, TX, WA	Commercial construction, cement

(Number in parenthesis indicates last year's ranking.)

Photo: Courtesy Weyerhaeuser

> **A builder needs to be in something other than for-sale housing. Diversification into commercial construction and land development smooths out the cycles.**

JOHN CREIGHTON, PRESIDENT

WEYERHAEUSER REAL ESTATE COMPANY

▲ When WRECO of Tacoma, Wash., number 17 on the BUILDER 100, implemented its diversification strategy in 1979, the single-family home building company went straight for the jugular. While housing still accounted for the majority—58 percent—of the company's revenue last year, residential and commercial lot development contributed 17 percent, commercial building 12 percent, raw land sales 3 percent and other interests 10 percent. A mortgage banking division serviced an $8.8 billion portfolio and 180,000 borrowers. John Creighton rules WRECO's nine home building divisions with a light hand. Each has a separate, locally known name (for example, "Centennial" in Dallas) and responds to local design and marketing conditions. The mother ship provides access to mortgage money and the financial backing to maintain operations when a division's market slows down. Does it work? Earnings were up 33 percent in 1984.

	COMPANY
11 (9)	**Trammell Crow Residential Companies** Dallas Privately owned
12 (20)	**Robertson Homes** Stockton, Calif. Privately owned
13 (12)	**General Homes Corporation** Houston Publicly held
14 (11)	**The Ryland Group, Inc.** Columbia, Md. Publicly held
15 (13)	**Nash Phillips/Copus, Inc.** Austin Privately owned
16 (26)	**PF West, Inc.** Tucson Privately owned
17 (10)	**Weyerhaeuser Real Estate Company** Tacoma Privately owned
18 (35)	**Pacific Scene, Inc.** San Diego Privately owned
19	**Blazer Building, Inc.** Houston Privately owned
20 (22)	**Paragon Group, Inc.** Dallas Privately owned

OFFICER(S)	1984 HOUSING PRODUCTION				GROSS REVENUE (in millions)	MARKETS	DIVERSIFICATION
	Total units	Detached for-sale units	Attached for-sale units	Rental units			
Dennis H. Alberts, *president*	**6,433**	110		6,323	$474	AZ, CO, CT, FL, GA, IL, MD, MA, MO, NM, NC, OK, TN, TX, VA	Property management, land development/sales, rehab, real estate broker, syndications, commercial construction
Bart Robertson, *president*	**6,319**	192	12	6,115	$302	AZ, AR, CA, KS, KY, MO, OK, TN, UT	Property management, rehab
J.P. Payson, *chairman, president and CEO*	**5,726**	5,726			$384	AZ, FL, LA, TX	Land development/sales, mortgage banking, insurance
Ted Peck, *chairman and CEO*	**5,545**	4,000	1,545		$404	AZ, DE, FL, GA, IN, MD, NJ, OH, OK, PA, TX, VA	Mortgage banking, factory-built housing, component manufacturing
Nash Phillips, *chairman*	**5,468**	3,416	776	1,276	$452	AZ, CO, TX	Property management, nonres, land development/sales, mortgage banking, savings and loan, investment banking, real estate broker, insurance, factory-built housing, syndications
Joseph M. Friedheim, *president*	**5,110**			5,110	$180	AZ, TX, UT	Property management, nonres, lumber/materials dealer
John W. Creighton, *president*	**4,500**	3,300	850	350	$730	CA, FL, MD, NJ, NV, NC, OR, SC, TX, VA, WA, BC	Property management, nonres, land development/sales, rehab, mortgage banking, insurance, component manufacturing, syndications
Tawfiq N. Khoury, *chairman*	**4,194**	1,121	715	2,358	$372	AZ, CA, TX	Property management, nonres, land development/sales, syndications
Chris Richardson, *president*	**3,700**			3,700	$94	NC, TX	
William R. Cooper, *president*	**3,634**		48	3,586	$146	AZ, CA, FL, IL, KY, MO, NC, SC, TX, VA	Property management, nonres, land development/sales, real estate broker

(Number in parenthesis indicates last year's ranking.)

Photo: Courtesy Hovnanian Enterprises

KEVORK HOVNANIAN, CHAIRMAN AND PRESIDENT

HOVNANIAN ENTERPRISES

▲ Red Bank, N.J.'s Hovnanian Enterprises, number 29 on the BUILDER 100, is the current darling of Wall Street. The company's stock soared from 8 to 18½ in 1984, as starts in its Florida and New Jersey markets increased by nearly 90 percent and the company expanded into a new New Jersey market by acquiring 49 percent of Calton, Inc. Analysts like David Wilson of Wall Street's Shearson Lehman/American Express, extol Hovnanian's growth prospects and its "no frills-few options" product, a two-level, 1,000 to 1,600-square-foot attached house that sells for around $58,000. With prices far below that of local competition, 250-unit Hovnanian projects often sell out in weeks, if not days. Hovnanian also has mortgage subsidiary, syndication, condo management and commercial building divisions.

> **Since we went public in 1983, the public has been saying that our low margin, rapid turnover philosophy is right.**

		COMPANY
21	(18)	**Gene Branscome Investments** Baytown, Tex. Privately owned
22		**The Duke Companies** San Antonio Privately owned
23		**Barnett-Range Corporation** Stockton, Calif. Privately owned
24	(23)	**Ray Ellison Homes, Inc.** San Antonio Privately owned
25	(25)	**Development Corporation of America** Hollywood, Fla. Publicly held
26	(83)	**Drexel Properties, Inc.** Dallas Privately owned
27		**Continental Developers, Inc.** Houston Privately owned
28	(59)	**The Grupe Company** Stockton, Calif. Privately owned
29	(51)	**Hovnanian Enterprises, Inc.** Red Bank, N.J. Publicly held
30	(32)	**Kaufman & Broad, Inc.** Los Angeles Publicly held

OFFICER(S)	1984 HOUSING PRODUCTION				GROSS REVENUE (in millions)	MARKETS	DIVERSIFICATION
	Total units	Detached for-sale units	Attached for-sale units	Rental units			
Gene Branscome, *owner*	**3,556**			3,556	$181	AZ, CO, FL, OK, TX, UT	Property management
R. Jerry Stone, Jr., *chairman*	**3,230**		50	3,180	$110	TX	Property management, nonres, land development/sales, real estate broker, outdoor advertising
Hal W. Barnett, *chairman and CEO*	**3,200**	100	72	3,028	$152 (estimated)	CA, FL, MO, NC, OK, TN, VA	Property management, nonres, land development/sales, real estate broker, syndications
Ray Ellison, *chairman*	**3,104**	3,024	80		$287	TX	Property management, nonres, land development/sales, mortgage banking, real estate broker, insurance, lumber/materials dealer
Alvin Sherman, *president*	**2,879**	372	2,507		$185	FL, TX	Property management, nonres, mortgage banking, real estate broker, insurance
Bart McEntire, *president*	**2,800**		180	2,620	Not available	CO, DC, FL, OK, NC, TX	Property management
Sam L. Burkett, Jr., *president*	**2,706**			2,706	$66	FL, OK, TX	
Greenlaw Grupe, Jr., *chairman and CEO*	**2,697**	41	70	2,586	$202 (estimated)	AZ, CA, CO, GA, NM, OK, TN	Property management, nonres, land development/sales, real estate broker, lumber/materials dealer
Kevork Hovnanian, *president and chairman*	**2,622**		2,622		$169	FL, NJ	Property management, nonres, mortgage banking, syndications
Eli Broad, *chairman and CEO*	**2,600**	2,500	100		$600	CA, France	Mortgage banking, manufactured housing, life insurance

(Number in parenthesis indicates last year's ranking.)

MOVING UP

COMPANY	1983 RANK	UNITS	1984 RANK	UNITS
Lincoln Property	2	13,368	1	14,000
A.G. Spanos	4	12,000	2	13,340
Oxford Development	8	6,850	5	8,706
American Diversified	17	3,750	7	8,079
Centex	14	4,700	10	6,500
Robertson Homes	20	3,265	12	6,319
PF West	26	2,500	16	5,110
Pacific Scene	35	1,811	18	4,194
Drexel Properties	83	882	26	2,800
Grupe	59	1,248	28	2,697
Hovnanian Enterprises	51	1,400	29	2,622
Coastfed Properties	60	1,224	35	2,515
Irvine Pacific Development	75	960	45	2,100

MOVING DOWN

COMPANY	1983 RANK	UNITS	1984 RANK	UNITS
U.S. Home	1	14,028	4	10,081
Ryan Homes	5	10,620	9	7,565
American Continental	15	4,015	33	2,569
National Housing Partnership	7	7,714	41	2,208
Embrey Investments	19	3,400	54	1,732

COMPANY

31 **Gemcraft, Inc.**
(21) Houston
Privately owned

32 **Summers Associates, Inc.**
(16) Dallas
Privately owned

33 **American Continental Corporation**
(15) Phoenix
Publicly held

34 **Lewis Homes**
(49) Upland, Calif.
Privately owned

35 **Coastfed Properties**
(Formerly known as Mayer Group)
(60) Beverly Hills
Privately owned

36 **Browning Property Company**
(31) Dallas
Privately owned

37 **Jagger Buzbee Company**
(27) Austin
Privately owned

38 **First Southwest Equity Corporation**
(37) Temple, Tex.
Privately owned

39 **The Herman Bennett Company**
Austin
Privately owned

40 **The William Lyon Company**
(43) Newport Beach, Calif.
Privately owned

OFFICER(S)	1984 HOUSING PRODUCTION Total units	 Detached for-sale units	 Attached for-sale units	 Rental units	GROSS REVENUE in millions	MARKETS	DIVERSIFICATION
Bob Hutchins, *chairman and CEO*	**2,600**	2,500	100		$220	OK, TX	Nonres, land development/sales, mortgage banking, savings and loan, real estate broker, insurance
Carl W. Summers, *chairman*	**2,600 (estimated)**			2,600 (estimated)	Not available	TX	Property management, nonres, land development/sales
Charles Keating, Jr., *chairman*	**2,569**	1,694	721	154	$389	AZ, CO	Nonres, mortgage banking, savings and loan
Ralph M. Lewis, *chairman*	**2,521**	1,902	85	534	$200	CA, NV	Property management, nonres, land development/sales, real estate broker
Alan Casden, *chairman*	**2,515**	54	104	2,357	$186	CA	Property management, nonres, land development/sales, savings and loan, syndications
Gordon D. Browning, *president*	**2,510**		72	2,438	$19	AZ, FL, TX	Property management, land development/sales, syndications
Robert Buzbee, *president*	**2,447**			2,447	$75 (estimated)	FL, NC, OK, TX	Property management, nonres, land development/sales, syndications
Robert K. Utley, III, *chairman and president*	**2,430**			2,430	$184	TX	Property management, nonres, land development/sales, real estate broker, syndications
Ben F. Barnes, *chairman*	**2,384**		104	2,280	$65	NM, TX	
William Lyon, *chairman and CEO*	**2,263**	1,211	1,052		$268	CA, FL	Nonres, land development/sales

(Number in parenthesis indicates last year's ranking.)

DIVERSIFICATION

ACTIVITY	COMPANIES
Residential property management	62
Nonresidential development	57
Land development/sales	54
Commercial property management	52
Syndications	33
Real estate broker	32
Mortgage banking	31
Architecture/interior design	20
Insurance/title company	17
Remodel/repair/rehab	17
Factory-built housing/component manufacturing	16
Cable TV	10
Savings and loan	9
Mobile home parks	3
Investment banking	3

COMPANY		
41	(9)	**The National Housing Partnership** Washington, D.C. Publicly held
42	(24)	**Wood Brothers Home** Denver Publicly held (subsidiary of City Investing)
43		**Pacific Lighting Real Estate Group** Santa Ana, Calif. Publicly held (subsidiary of Pacific Lighting Corporatio
44		**CITCOR Properties Corporation** Oklahoma City Privately owned
45	(75)	**Irvine Pacific Development Company** Newport Beach, Calif. Privately owned
46	(39)	**General Developmen Corporation** Miami Publicly held (subsidiary of City Investing Company)
47	(33)	**Lennar Corporation** Miami Publicly held
48	(64)	**Colibre Companies** Atlanta Privately owned
49	(29)	**The Law Company, Inc.** Wichita, Kans. Privately owned
50		**Watt Industries, Inc.** Santa Monica, Calif. Privately owned

OFFICER(S)	1984 HOUSING PRODUCTION				GROSS REVENUE (in millions)	MARKETS	DIVERSIFICATION
	Total units	Detached for-sale units	Attached for-sale units	Rental units			
George M. Brady, Jr., *chairman, president and CEO*	**2,208**	464	630	1,114	**$699**	**Forty-two states, DC, PR.**	**Property management, land development/sales, rehab, equity funds, syndications, insurance brokerage for housing industry**
George Flagg, *acting president*	**2,200** (estimated)	1,200 (estimated)	1,000 (estimated)		**$308**	**AZ, CO, NM, TX**	**Mortgage banking, manufactured housing**
E.J. Hunter, *president*	**2,193**	1,240	673	280	**$258**	**AZ, CA, HI, NM**	**Property management, nonres, land development/sales, real estate broker, syndications**
Mike Henderson, *president and CEO*	**2,117**			2,117	**$83**	**AR, LA, OK**	**Property management, rehab, real estate broker, syndications**
Roland F. Osgood, *president*	**2,100**	40	690	1,370	**$215**	**CA**	**Residential property ownership**
Robert F. Ehrling, *president*	**2,024**	1,371	653		**$332**	**FL**	**Property management, nonres, land development/sales, mortgage banking, real estate broker**
Leonard Miller, *chairman and president*	**2,009**	Breakdown not available		1,800	**$166**	**AZ, FL**	**Property management, nonres, mortgage banking, insurance, component manufacturing**
Douglas Mullins Jack W. Morse Edward Brinson, *partners*	**1,949**		473	1,476	**$115** (estimated)	**CO, FL, GA, NC, TX, VA**	**Property management, land development/sales**
Richard M. Kerschen, *president*	**1,915**		311	1,604	**$95**	**AR, CA, CO, FL, KS, MI, NC, OK, PA, SC, TX**	
R.A. Watt, *chairman*	**1,840**	449	1,121	270	**$260**	**CA**	**Property management, nonres, land development/sales, real estate broker**

(Number in parenthesis indicates last year's ranking.)

TOP 5 BUILDERS
DETACHED

COMPANY	UNITS
Jim Walter Homes	7,809
U.S. Home	6,349
Pulte Home	6,340
General Homes	5,726
Ryan Homes	4,210

TOP 5 BUILDERS
ATTACHED

COMPANY	UNITS
Pulte Homes	4,668
U.S. Home	3,732
Ryan Homes	3,355
Hovnanian Enterprises	2,622
Development Corp. of America	2,507

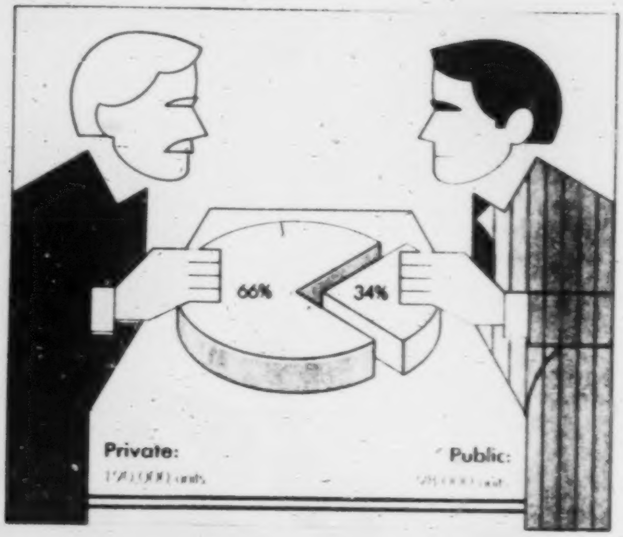
TOP 5 BUILDERS
RENTALS

COMPANY	UNITS
Lincoln Properties	14,000
A.G. Spanos	13,340
Oxford Development	8,706
American Diversified	7,502
Cardinal Industries	7,285

		COMPANY
51	(42)	**M.D.C. Corporation** Denver Publicly held
52	(52)	**Burg & DiVosta Corporation** Palm Beach Gardens, Fla. Privately owned
53	(50)	**Barratt American, Inc.** Irvine, Calif. Publicly held
54	(19)	**Embrey Investments, Inc.** San Antonio Privately owned
55	(30)	**The Hardesty Company** Tulsa Privately owned
56	(95)	**Edward Rose Building Enterprise** Southfield, Mich. Privately owned
57		**Gotham Construction Corporation** New York Privately owned
58	(44)	**Forest City Enterprises, Inc.** Cleveland Privately owned
59	(40)	**The Mitchell Company** Mobile, Ala. Privately owned
60		**Metro Development Corporation** Atlanta Privately owned

OFFICER(S)	1984 HOUSING PRODUCTION Total units	Detached for-sale units	Attached for-sale units	Rental units	GROSS REVENUE in millions	MARKETS	DIVERSIFICATION
Michael A. Feiner, *president*	**1,787**	Breakdown not available			$250	**AZ, CO, FL**	**Property management, nonres, land development/sales, mortgage banking, real estate broker, insurance, syndications**
Otto B. DiVosta, *chairman*	**1,758**		1,758		$92	**FL**	**Property management, land development/sales, cable TV**
John S.R. Swanson, *president and chairman*	**1,737**	903	834		$175	**CA**	**Land development/sales**
Walter Embrey, Jr., *president*	**1,732**			1,732	$104	**AZ, FL, TX**	**Nonres**
Floyd Hardesty, *president*	**1,712**			1,712	$65	**KS, KY, MS, MO, OK, TN, TX**	**Property management, nonres, land development/sales, rehab**
Sheldon Rose, *CEO*	**1,700**			1,700	$70	**IL, IN, MI, MO, NC, OH, SC, TN, VA, WI**	**Property management, nonres, land development/sales, cable TV**
Joel I. Picket, *president*	**1,666**	828		838	Not available	NY	
Albert B. Ratner, *president*	**1,650**	150		1,500	$300	CA, Midwest, Northeast	**Prefabricated apartments**
Mayer Mitchell, *chairman and president*	**1,633**	308	198	1,127	$134	AL, FL, LA, MS	**Property management; nonres, land development/sales, real estate broker, factory-built housing, syndications**
Lee N. Terry, *president*	**1,628**		76	1,552	$46	FL, GA, TX	**Property management, land development/sales, commercial construction**

(Number in parenthesis indicates last year's ranking.)



TOP 5 COMPANIES

COMPANY	**UNITS**
Lincoln Properties	14,000
A.G. Spanos	13,340
Oxford Development	8,706
Cardinal Industries	8,167
American Diversified	7,979

TOP 5 COMPANIES

COMPANY	**UNITS**
Pulte Home	11,008
U.S. Home	10,081
Jim Walter Homes	7,809
Ryan Homes	7,565
Centex	6,500

		COMPANY
61	(38)	**The Related Companies, Inc.** New York Privately owned
62	(56)	**Miles Homes** Minneapolis Publicly held (division of Insilco)
63	(36)	**Cimarron Companies** Houston Privately owned
64		**Empire West Companies** Tucson Privately owned
65	(45)	**The Bill Milburn Company** Austin Privately owned
66		**U.S. Capital Corporation** Columbia, S.C. Publicly held
67		**Claremont Financial Services, Inc.** Boston Privately owned
68		**McKellar Development of La Jolla** La Jolla, Calif. Privately owned
69	(87)	**George Thomas Homes, Inc.** El Paso, Tex. Privately owned
70	(57)	**Hunt Building Corporation** El Paso, Tex. Privately owned

OFFICER(S)	1984 HOUSING PRODUCTION				GROSS REVENUE in millions	MARKETS	DIVERSIFICATION
	Total units	Detached for-sale units	Attached for-sale units	Rental units			
Stephen M. Ross, *president*	**1,626**			1,626	$100 (estimated)	CO, FL, NY	Property management, nonres, rehab, mortgage banking, syndications
H.F. Kahler, *president*	**1,624**	1,624			$60	Continental U.S.	Mortgage banking, factory-built housing
Stanley W. Cameron, *chairman and CEO*	**1,582**			1,582	$75	AL, FL, KS, OK, TX	Property management, nonres, insurance
Cary Marmis Jerry Sonenblick Fred Steiniger, *owners*	**1,575**			1,575	$37	AZ, NV, NM, TX, UT	Property management, land development/sales, real estate broker, syndications
Bill Milburn, *owner*	**1,547**	1,547			$192	TX	Property management, nonres, land development/sales, mortgage banking, savings and loan, real estate broker, insurance, cable TV, travel agency
Donald R. Tomlin, Jr., *chairman*	**1,509**		1,509		$142	AL, CO, NJ, NC, SC, TN	Mortgage banking, real estate broker, insurance, cable TV
Patrick Carney, *president*	**1,481**		16	1,465	Not available	CT, LA, MA, RI	Property management, nonres, land development/sales, rehab, syndications
Christopher S. McKellar, *president and CEO*	**1,471**	186	1,285		$56	CA, UT	Property management, nonres, land development/sales, mortgage banking, real estate broker, commercial leasing
George D. Thomas, Jr., *CEO*	**1,422**	836	360	226	$58	NM, TX	Property management, land development/sales, insurance
W.L. Hunt, *president*	**1,409**	273	527	609	$46	AZ, CA, LA, MD, NM, TX, VA	Property management, rehab

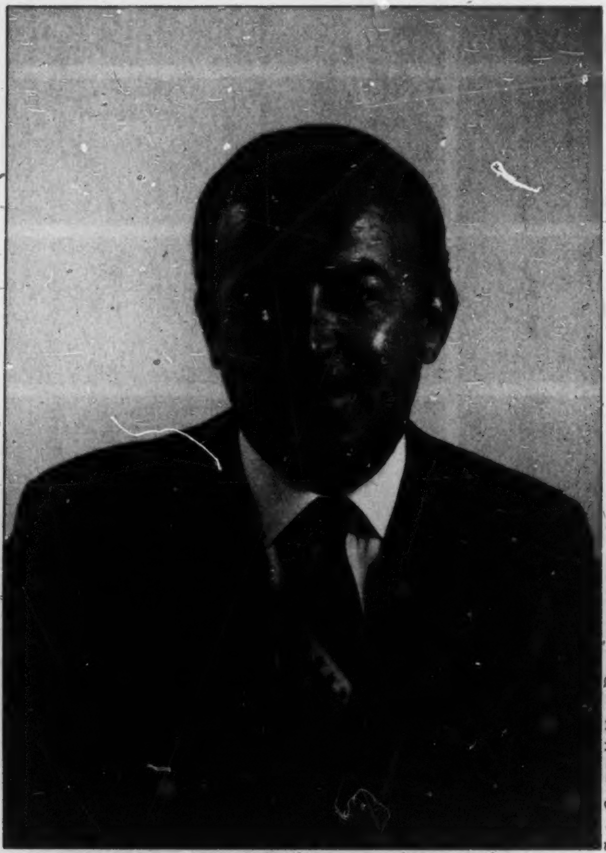


Photo: Courtesy J.L. Mason Group

We take it slow and easy and penetrate a new market to a maximum market share. Then look around for other areas.

JOSEPH L. MASON, PRESIDENT AND CEO

J.L. MASON GROUP

▲ Number 86 on the BUILDER 100, the J.L. Mason Group of St. Louis entered the BUILDER 100 ranks this year the old fashioned way: They earned it start by start. It took the company 10 years to saturate its Missouri market with high-end ($135,000-plus) housing. Then, in 1982, Mason added an affordable line and took it to Tampa and Orlando. Since then the new markets have helped the company nearly triple volume and double revenue, which also includes commercial ventures and other real estate investments. Someday soon revenues may reflect profits from savings and loan institutions. Joe Mason, who founded the company, has been busily acquiring controlling interest in savings and loans as personal investments. The two interests are separate, but Mason would not be averse to combining them sometime in the future.

	COMPANY
71 (55)	**Lieberman Corporation** St. Louis Privately owned
72 (76)	**Standard-Pacific Corporation** Costa Mesa, Calif. Publicly held
73 (74)	**Convill Development Corporation** West Palm Beach, Fla. Publicly held (subsidiary of First American Bank)
74 (54)	**Thomas P. Harkins, Inc.** Silver Spring, Md. Privately owned
75 (58)	**Mission Viejo Company** Mission Viejo, Calif. Publicly held (subsidiary of Philip Morris, Inc.)
76 (60)	**Fairfield Communities, Inc.** Little Rock, Ark. Publicly held
77 (72)	**Ponderosa Homes** Irvine, Calif. Publicly held (subsidiary of Aetna Life and Casualty)
78 (63)	**Jack W. Blumenfeld & Company** Philadelphia Privately owned
79	**Ira L. Brummell Development Company** Fullerton, Calif. Privately owned
80	**J.D. McCaslin & Company** Dallas Privately owned

OFFICER(S)	1984 HOUSING PRODUCTION				GROSS REVENUE (in millions)	MARKETS	DIVERSIFICATION
	Total units	Detached for-sale units	Attached for-sale units	Rental units			
Alan L. Lieberman, *president*	**1,403**	253	702	448	Not available	CO, FL, MD	Property management, nonres, real estate broker, syndications
Arthur E. Svendsen, *chairman*	**1,342**	1,148	194		$193	CA, IL, TX, WA	Mortgage banking, office furniture systems, aircraft equipment
H. Irwin Levy, *president*	**1,338**	133	1,205		$93	FL	Property management, land development/sales, mortgage banking, real estate broker, insurance, component manufacturing, cable TV
Thomas P. Harkins, *chairman*	**1,329**		35	1,294	$71	DC, MD, VA	Rehab
Philip J. Reilly, *president*	**1,322**	913	409		$238	CA, CO	Property management, nonres, land development/sales, mortgage banking, real estate broker
C.R. Warner, *chairman and CEO*	**1,312**	253	1,059		$191	AR, AZ, CO, FL, GA, NC, SC, TN, VA, St. Croix, Virgin Islands	Property management, nonres, land development/sales, mortgage banking, real estate broker
James S. Dailey, *president and CEO*	**1,309**	Breakdown not available			$264	CA	Land development/sales, design center, escrow company, brokerage company
Jack W. Blumenfeld, *president*	**1,255**	360	180	715	Not available	NJ, PA	Property management, nonres, land development/sales, health clubs
Ira L. Brummell, *president and treasurer*	**1,242**			1,242	$52 (estimated)	CA	Property management, syndications, cable TV
J.D. McCaslin, *president*	**1,210**			1,210	$56	TX	Property management, land development/sales, syndications

(Number in parenthesis indicates last year's ranking.)

Photo: Copyright 1984 Raymond Ross

GARY ROSENBERG, CHAIRMAN AND CO-CEO

UNIVERSAL DEVELOPMENT CORPORATION

▲ U.D.C., number 90 on the BUILDER 100, took off slowly. Chairman Rosenberg planned it that way. When he founded the company in 1968, he decided to concentrate company efforts on building move-up and retirement communities with clearly defined lifestyles. The long and research-dominated years on the learning curve—U.D.C. developed land for five years before it began to build houses—finally are paying off. Steady growth is giving way to quantum leaps forward. Where net income flirted with $2 million a year between 1979 and 1982, the publicly held company is reveling in 1984 net income that edged $10 million. The future looks good, too, as a Rosenberg innovation—a Land Bank program in which limited partnerships hold land U.D.C. is interested in buying—assures U.D.C. access to enough Sunbelt sites to quadruple operations in the next five years.

By concentrating exclusively on retirement and move-up markets in the Sunbelt, we've had steady growth with no downturns even in quiet periods.

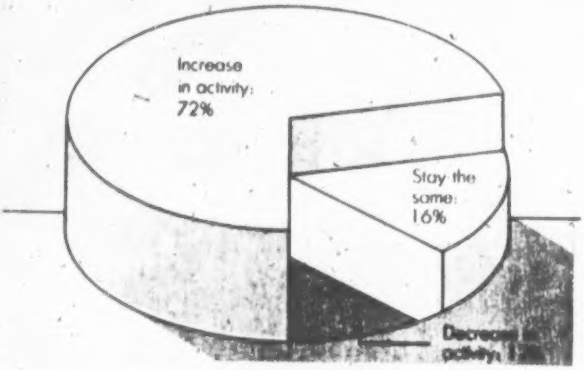
	COMPANY
81	**Levitt Corporation** Boca Raton, Fla. Publicly held
82 (86)	**Shapell Industries, Inc.** Beverly Hills Privately owned
83	**Shelter Canadian Holdings Ltd.** Winnipeg, Manitoba Canada Privately owned
84 (79)	**International Developers, Inc.** Arlington, Va. Privately owned
85 (61)	**M/I Schottenstein Company, Inc.** Columbus, Ohio Privately owned
86	**The J.L. Mason Group Inc. and Affiliates** St. Louis Privately owned
87 (78)	**M.J. Brock & Sons, Inc** Los Angeles Publicly held
88	**Landmark Enterprises** Louisville Privately owned
89 (84)	**John Crosland Company** Charlotte, N.C. Privately owned
90 (67)	**Universal Development Corporation** Chicago Publicly held

OFFICER(S)	1984 HOUSING PRODUCTION				GROSS REVENUE (in millions)	MARKETS	DIVERSIFICATION
	Total units	Detached for-sale units	Attached for-sale units	Rental units			
Elliott M. Weiner, *president*	**1,202**	990	212		**$84 (estimated)**	**FL, IL, PR**	
Nathan Shapell, *president*	**1,200**	826	374		**$273**	**CA**	**Property management, land development/sales**
Graham C. Lount, *chairman*	**1,200**		100	1,100	**$120**	**FL, MD, MN, Canada (Manitoba, BC, Ontario)**	**Property management, nonres, savings and loan, real estate broker, syndications**
Giuseppe Cecchi, *president*	**1,200**	1,200			**$80**	**DC, MD, VA**	**Nonres, land development/sales, second trust financing**
Irving Schottenstein, *president*	**1,200**	800	200	200	**$70**	**FL, OH**	**Property management, nonres, land development/sales, real estate broker**
Joseph L. Mason, *CEO and president*	**1,194**	847	347		**$103**	**FL, MO**	**Property management, nonres, land development/sales, real estate broker, insurance, mobile home parks, syndications, cable TV, oil and gas**
Richard C. Chenoweth, *chairman and CEO*	**1,125**	975	150		**$160**	**CA, CO**	**Land development/sales, mortgage banking**
Neal Harding, *president*	**1,124**	4		1,120	**$48**	**AZ, FL, IL, IN, KY, NC, TN, VA**	**Property management, land development/sales, rehab, real estate broker, syndications, gas processing**
John Crosland, Jr., *president*	**1,116**	720	268	128	**$78**	**NC, SC**	**Property management, nonres, land development/sales, rehab, real estate broker, syndications**
Gary A. Rosenberg, *chairman*	**1,097**	512	585		**$116**	**AZ, CA, FL, NC, SC**	**Property management, mortgage banking, syndications**

(Number in parenthesis indicates last year's ranking.)

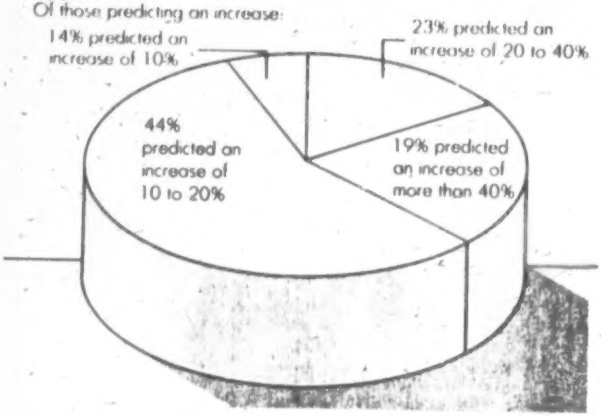
HOW THEY SEE 1985

General Optimism



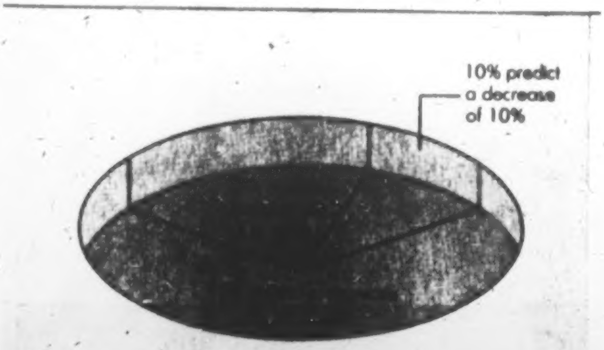
Uppers

Of those predicting an increase:



Downers

Of those that predict a decrease:



	COMPANY
91	**Washington Homes, Inc.** Waldorf, Md. Publicly held
92	**Calmark Properties, Inc.** Santa Monica, Calif. Privately owned (subsidiary of GSI, Inc.)
93 (65)	**AMREP Corporation** New York Publicly held
94	**Hooker Barnes Homes, Inc.** Atlanta Privately owned
95	**Leisure Technology, Inc.** Los Angeles Publicly held
96 (53)	**Goldrich & Kest Industries** Culver City, Calif. Privately owned
97	**First City Properties, Inc.** Beverly Hills Publicly held
98 (89)	**Amurcon Corporation** Southfield, Mich. Privately owned
99 (69)	**George Wimpey, Inc.** San Diego Publicly held (subsidiary of George Wimpey, London, England)
100 (71)	**Vernon, James & Paul Smith Company** Dallas Privately owned

OFFICER(S)	1984 HOUSING PRODUCTION Total units	Detached for-sale units	Attached for-sale units	Rental units	GROSS REVENUE (in millions)	MARKETS	DIVERSIFICATION
William J. Harnett, *chairman*	**1,085**	651	434		$60	DC, MD, PA	Savings and loan
John M. Huskey, *president*	**1,063**	66	176	821	$24	CA, FL	Property management, nonres, land development/sales, rehab, real estate broker, syndications
Howard W. Friedman, *chairman*	**1,050**	1,030	20		$83	CO, FL, NM	Real estate broker, insurance, cable TV, magazine and book distribution
Laurie J. Frost, *president*	**1,043**	1,043			$104	AZ, FL, GA, TX	Nonres, land development/sales
Michael L. Tenzer, *chairman and CEO*	**1,040**	256	784		$87	CA, FL, NJ, NY	Lifecare Housing Development, residential urban development
Jona Goldrich, *president*	**1,026**		263	763	$200	CA	Property management, energy company
William Belzberg, *president and CEO*	**1,025**	670	355		$156	AZ, CA, NV	Land development/sales
Barton M. Berman, *chairman and CEO*	**1,002**			1,002	$52 (estimated)	CO, FL, KY, MI, VA, WA	Property management, rehab, syndications
R.B. Ferris, *president, U.S. operations*	**1,000** (estimated)	800 (estimated)	200 (estimated)		$150 (estimated)	CA, TX	Property management, nonres, land development/sales, rehab
James W. Smith, II Vernon S. Smith, Paul L. Smith, *principals*	**998**	75	35	888	$51	TX	Property management, land development/sales, component manufacturing

(Number in parenthesis indicates last year's ranking.) See alphabetical listing of BUILDER 100 on page 200.

(alphabetical listing)

COMPANY*	RANK
A.G. Spanos Construction, Inc.	2
American Continental Corporation	33
American Diversified	7
AMREP Corporation	93
Amurcon Corporation	98
Barnett-Range Corporation	**23**
Barratt American, Inc.	53
Bill Milburn Company	65
Blazer Building, Inc.	**19**
Browning Property Company	36
Burg & DiVosta Corporation	52
Calibre Companies	48
Calmark Properties, Inc.	**92**
Cardinal Industries, Inc.	**6**
Cenvill Development Corporation	73
Centex Corporation	10
Cimarron Companies	63
CITCOR Properties Corporation	**44**
Claremont Financial Services, Inc.	**67**
Coastfed Properties	35
Continental Developers, Inc.	**27**
Development Corporation of America	25
Drexel Properties, Inc.	26
The Duke Companies	**22**
Edward Rose Building Enterprise	56
Embrey Investments, Inc.	54
Empire West Companies	**64**
Fairfield Communities, Inc.	76
First City Properties, Inc.	**97**
First Southwest Equity Corporation	38
Forest City Enterprises, Inc.	58
Gemcraft, Inc.	31
Gene Branscome Investments	21
General Development Corporation	46
General Homes Corporation	13
George Thomas Homes, Inc.	69
George Wimpey, Inc.	99
Goldrich & Kest Industries	96
Gotham Construction Corporation	**57**
The Grupe Company	28
The Hardesty Company	55
The Herman Bennett Company	**39**
Hooker Barnes Homes, Inc.	**94**
Hovnanian Enterprises, Inc.	29
Hunt Building Corporation	70
International Developers, Inc.	84
Ira L. Brummell Development Company	**79**
Irvine Pacific Development Company	45
Jack W. Blumenfeld & Company	**78**
Jagger Buzbee Company	**37**
J.D. McCaslin & Company	**80**
Jim Walter Homes, Inc.	8
The J.L. Mason Group, Inc.	**86**
John Crosland Company	89
Kaufman & Broad, Inc.	30
Landmark Enterprises	**88**
The Law Company, Inc.	49
Leisure Technology, Inc.	**95**
Lewis Homes	34
Lennar Corporation	47
Levitt Corporation	**81**
Lieberman Corporation	71
Lincoln Property Company	1
McKellar Development of La Jolla	**68**
M.D.C. Corporation	51
Metro Development Corporation	**60**
M/I Schottenstein Company, Inc.	85
Miles Homes	62
Mission Viejo Company	75
The Mitchell Company	59
M.J. Brock & Sons, Inc.	87
Nash Phillips/Copus, Inc.	15
The National Housing Partnership	41
Oxford Development Corporation	5
Pacific Lighting Real Estate Group	**43**
Pacific Scene, Inc.	18
Paragon Group, Inc.	20
PF West, Inc.	16
Ponderosa Homes	77
Pulte Home Corporation	3
Ray Ellison Homes, Inc.	24
The Related Companies, Inc.	61
Robertson Homes	12
Ryan Homes, Inc.	9
The Ryland Group, Inc.	14
Shapell Industries, Inc.	82
Shelter Canadian Holdings Ltd.	**83**
Standard-Pacific Corporation	72
Summers Associates, Inc.	32
Thomas P. Harkins, Inc.	74
Trammell Crow Residential Companies	11
Universal Development Corporation	90
U.S. Capital Corporation	**66**
U.S. Home Corporation	4
Vernon, James & Paul Smith Company	100
Washington Homes, Inc.	**91**
Watt Industries, Inc.	**50**
Weyerhaeuser Real Estate Company	**17**
The William Lyon Company	**40**
Wood Brothers Homes	**42**

*Companies in boldface are new to the BUILDER 100.

JUNE 1985

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BUILDER

THE NATIONAL ASSOCIATION OF HOME BUILDERS □ A HANLEY-WOOD, INC., PUBLICATION

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VOLUME 8, NUMBER 6 ■ JUNE 1985

BUILDER

70—RETIREMENT HOUSING: A MATURING MARKET

The baby boom generation has been getting all the attention, but the elderly market now is too big to ignore. Every day, in fact, another 5,000 Americans turn 65, and that is creating a whole set of new opportunities for builders.

(Cover: Washington Abbey, Eugene, Ore. Photo: Courtesy Ross & Sullivan Communications)

92—MASTER OF THE BATH

His name is Herbert Kohler. And his proper title is chairman and chief executive officer of the Kohler Company, a company he says is the leader—in more ways than one—in the highly competitive bathroom fixture business.

100—PROJECT OF THE MONTH

California builder Bill Davidson had a beautiful view site for his Pointe Del Mar project but two problems as well: environmentalists and some not-so-nifty houses next-door. He finally reached a tough compromise with the environmentalists, then built big, stunning homes that fully captured his buyers' attention.

COLUMNS

5 About Building
18 Money
22 Washington
26 Marketing
30 Strategy

DEPARTMENTS

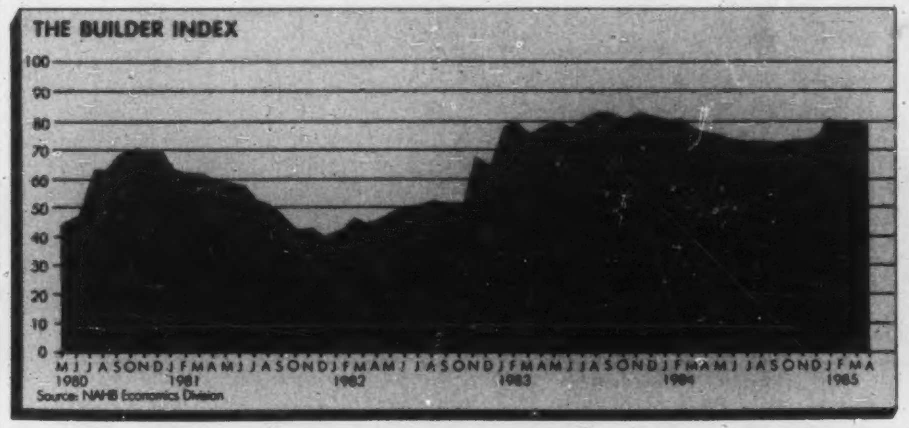
11 Outlook
106 Sketchbook
110 Shoptalk
115 NAHB Report
122 Products
134 Product News
143 Ad Index
144 Mail

NEWS

42 Spring forecast leaves chill in the air
43 Tax proposals: tough pills to swallow
46 Couple courts success: rentals their racket
46 Project overcomes overbuilt market
48 Lender blessing could mean co-op rebirth
50 Business is ducky for Arizona developer
50 REITs stage comeback among investors
54 Funding cutoff: a cure for the common code
58 Buyers move up date for mortgage burning
58 Housing scores big in AIA awards poll
62 Pension funds still cool on mortgages
62 Energy group formed for exchange of ideas
66 GAO report keeps Fannie Mae under gun

OUTLOOK

A HOUSING INDUSTRY ANALYSIS
PREPARED BY THE
NAHB ECONOMICS DIVISION



Source: NAHB Economics Division

The BUILDER Index inched down a bit in April to 78.5 as expectations by builders declined slightly.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Split Personality

Michael Sumichrast
NAHB chief economist, Washington, D.C.

In the short run—the next three months or so—housing starts will continue to be very strong. The annual rate will range from 1.8 to 2 million units, with single-family starts reaching 1 to 1.1 million. That's an excellent performance.

But when summer ends, housing starts will decline to an annual rate of between 1.5 to 1.6 million. That is unless interest rates decline sharply.

During the first quarter of this year the starts rate averaged 1.79 million units, down only about 8 percent from a very strong first quarter in 1984, when starts averaged 2 million units.

There are several reasons for this year's relatively strong performance. One is the strength of the multifamily sector; the other is the surprising strength of the Northeast region.

Why is the multifamily sector so strong? The fundamental reason is that rents have increased over the last five years, after a decade of very little growth. In addition, because so few rental units were built during the 1970s, there was a gap between supply and demand. Other factors are the possibility of major tax changes and the possible disappearance of tax-exempt revenue bonds, both of which are leading builders to building while they still can.

Many of the multifamily projects are designed for the elderly. As a result the multifamily sector showed major improvement in states such as California, Florida, Arizona and Tennessee. In these four states alone an additional 79,000 multifamily units were built last year compared to 1983.

On the other hand, in two of the oil states, Texas and Oklahoma, multifamily starts declined by almost the same number of units last year. This was due to the erosion of the employment base and overbuilding.

First-quarter results attest to the strength of markets in the Northeast. Starts this year are 20.5 percent ahead of the same period last year. The West region is doing about as well as it was a

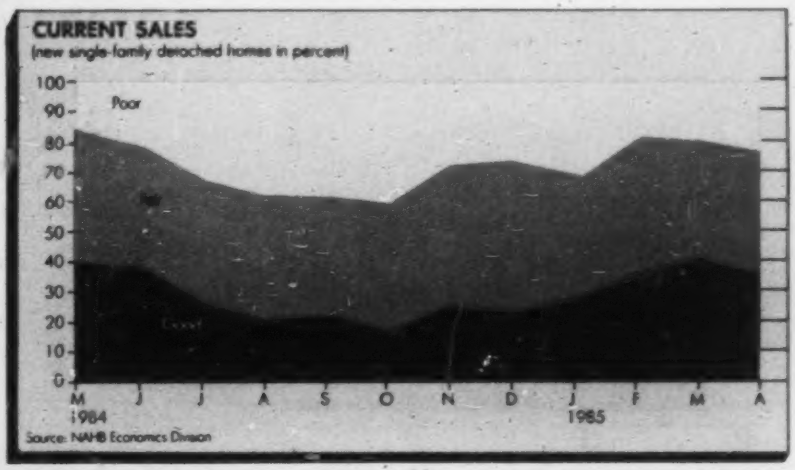
CONTINUED ON PAGE 13

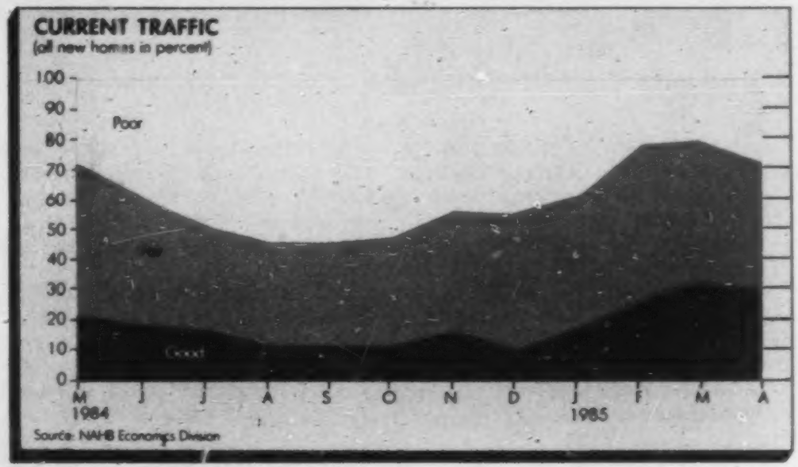
ANNUAL QUARTERLY RATES OF CHANGE FOR U.S. HOUSING STARTS
(in thousands of units)

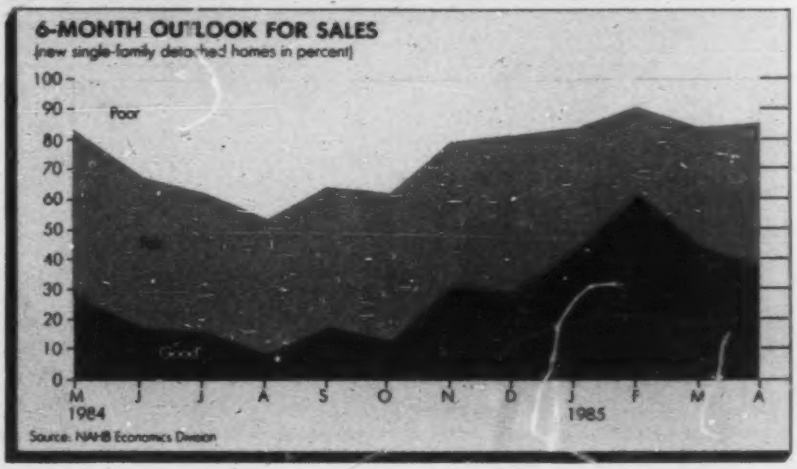
	1984 First quarter	1984 Fourth quarter	1985 First quarter	Percent change first quarter 1984 to first quarter 1985	Percent change fourth quarter 1984 to first quarter 1985
Single-family	1,257	1,045	1,111	−11.6%	6.3%
Multifamily	690	553	681	−1.3	23.1
Total	1,947	1,598	1,792	−8.0	12.1
2 to 4 units	131	114	104	−20.6	−8.8
5+ units	559	439	577	3.2	31.4
Northeast	220	234	265	20.5	13.2
Midwest	291	226	249	−14.4	10.2
South	958	754	803	−16.2	6.5
West	478	384	475	−0.6	23.7

Source: U.S. Census Bureau; compilation by NAHB Economics Division

OUTLOOK/BUILDER POLL


CURRENT SALES
(new single-family detached homes in percent)
Source: NAHB Economics Division


CURRENT TRAFFIC
(all new homes in percent)
Source: NAHB Economics Division


6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)
Source: NAHB Economics Division

LEVELING OFF

At this point the housing market is hard to describe. On the national level it might be described as leveling off. But on a region-by-region basis it is very uneven—almost unbelievably strong in the Northeast, more or less holding its own in the Midwest but much weaker than a year ago in the South and West.

Builders' comments in the April BUILDER poll reflect the regional differences. A New York builder said the market there was experiencing the "biggest building boom in its history."

On the other hand, a Texas builder described the market as "very bad" and an Oklahoma builder said his market was "depressed."

On the national level all signs—traffic, current home sales and six-month expectations (charts left)—point to a mild weakening in housing activity. None is off dramatically from the month before, but all are down, with current single-family homes sales down the most.

The information on this page is based on a survey of approximately 800 builders. The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

SWING TO SINGLES

Over the past two years, a growing proportion of both repeat and first-time buyers have purchased single-family detached houses, reports the Chicago Title Insurance Co. Last year, 89.9% chose single-family homes compared with 87.8% in 1983 and 76.6% in 1982. Working wives helped that happen. The proportion of married home buyers with two incomes reached 74.5% last year, up from 71.8% in 1983. Between 1977 and 1982, two-income families averaged 54.8% of all married couples buying homes. The biggest shift last year was among repeat home buyers: The proportion of married couples with two incomes jumped to 68.5%, up from 59.6% in 1983. Among married first-time buyers last year, 85.8% were two-income families, down slightly from 87.4%.

MARCH CAME IN LIKE A LION...

The value of new construction contracts jumped 12% in March to an annual rate of $227.7 billion, reports the F.W. Dodge Division of McGraw-Hill Information Systems Co. Residential building led the way with a 19% surge to an annualized value of $112.5 billion in March. It was the first time in nearly a year that the rate of total residential building exceeded $100 billion. The value of nonresidential building contracts in March rose 4%. As a result of March's strong contracting rate, the first quarter total was 1% higher than in the first quarter of 1984.

...AND WENT OUT THE SAME WAY

Existing single-family home sales hit an annual rate of 3.05 million units in March—the highest level in nearly 4½ years, the National Association of Realtors (NAR) reports. The March resale rate was 6% higher than the month before and 3% higher than in March 1984. NAR president David Roberts credited recent mortgage rate declines for the sales increase. But despite stepped-up sales, inventory also was up. At the end of March, 2.79 million existing single-family homes were on the market—an 11.0-month supply, up from a 10.5-month supply the month before.

STEPPING STONES

Manufactured homes are no longer considered merely stepping stones to site-built homes, according to a recent nationwide survey of 10,000 manufactured homeowners conducted by Foremost Insurance Co., Grand Rapids, Mich. Some 39% of the people who bought new manufactured homes in the past two years had previously lived in a mobile home. And 49% of new buyers say they plan to live in their new manufactured home indefinitely. That's up from 44% in 1982. What's more, more than half (58%) of buyers last year placed the units on private property rather than in mobile home parks compared with 46% in 1982.

HOME SALES DROP IN NORTHEAST

Sales of new single-family homes during March rose in every region except the Northeast. Sales increased 21% in the West, 9% in the South and 6.8% in the Midwest but fell 8% in the Northeast. At the end of March, there were 352,000 new houses for sale, or a 6.4-month supply, down from a 6.8-month supply.

WISEMAN RESIGNS FROM HUD

Shirley McVay Wiseman has resigned as general deputy assistant secretary of the Department of Housing and Urban Development (HUD) to run for vice president/secretary of NAHB. Wiseman also intends to return to home building in Lexington, Ky., where she was vice president of Wiseman Homes and a partner in Wiseman Real Estate. She characterized her two-year stint at HUD as "exciting and very rewarding and I'm ready to leave."

CONTINUED FROM PAGE 11

year ago, with about a 27 percent share of total housing starts compared to 25 percent one year ago.

The news from the Midwest and the South isn't as good. The Midwest was down by 14 percent in the first quarter from a year ago, and although starts in March were quite strong, one month's activity does not suggest a reversal. With starts down 16 percent, the South is the big loser, and the biggest losers were the southern oil states: Texas down 85,171 in 1984 from 1983; Oklahoma down 18,073; and Louisiana down 6,982 units.

Permit data indicates that starts will continue to be strong through the summer months. But, because the market in the South, which now accounts for about one-half of all housing activity, is so soft, a slowdown is almost inevitable by fall. Already many southern cities are overbuilt, and permits are way down from a year ago. Without a strong South, we simply cannot have a strong national housing market. And although there are signs of some improvement in employment in such cities as Houston, the housing turnaround will not come this year in any of the oil states.

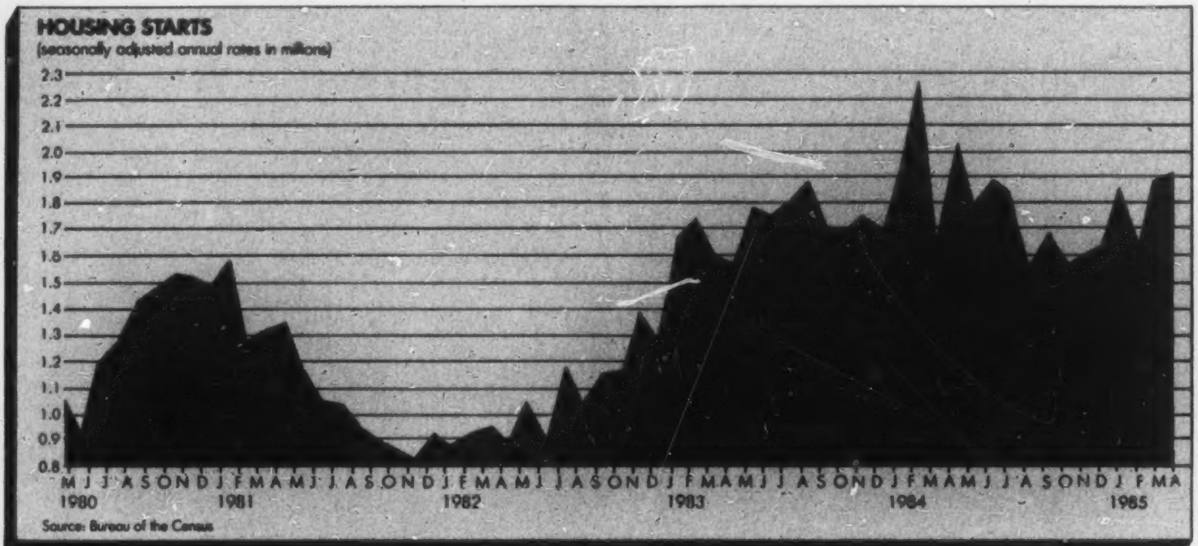
Thankfully, a very strong nonresidential sector is offsetting at least in part the residential slowdown. Office construction, in fact, continues to boom in spite of massive overbuilding in many areas. Commercial construction also is doing well and industrial construction is improving. There are many nonres opportunities and many more in the rehab market, which continues to flourish just about everywhere.

All in all, this will be a good year for housing, but the market will have a split personality. It will start out strong and run only about 8 to 10 percent behind last year. Then it will weaken considerably with starts dropping to the 1.4 to 1.6 million unit range.

The year should end with 1.64 million new housing starts, and that's with interest rates still very high. So the third year of the housing recovery is really not bad at all.

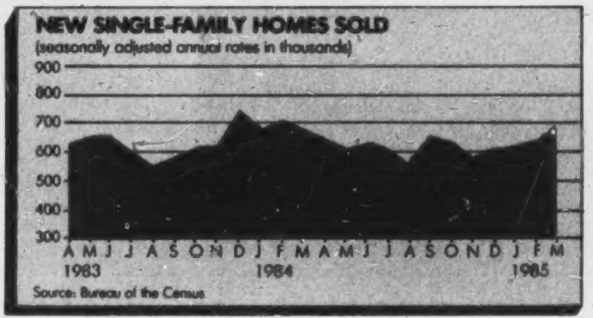
For those who are uncertain, however, about the second half and next year, it may be a good idea to look for opportunities in the nonresidential market, including rehabilitation and renovation. It's a big market with potential.

OUTLOOK/STATISTICS



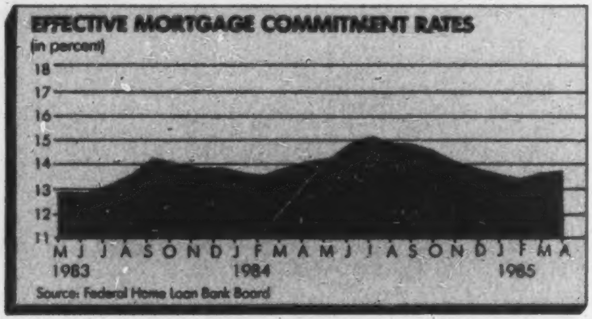
Source: Bureau of the Census

Starts climbed in April to an annual rate of 1.9 million units—the highest level in a year—and 1.2% higher than the revised March rate. Multifamily starts accounted for the increase, rising nearly 6% to an annual rate of 754,000. Single-family starts slipped 1% to 1.16 million.



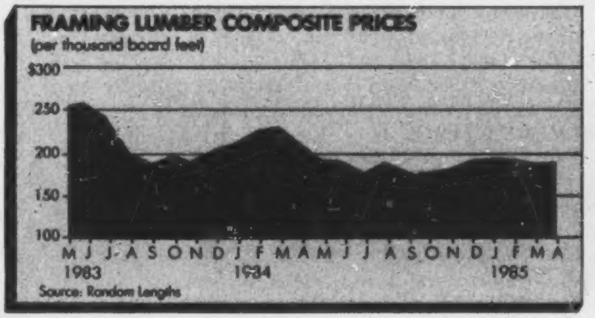
Source: Bureau of the Census

Sales climbed 9% in March to an annual rate of 698,000 from an upwardly revised February rate. However, first quarter sales were down 4% from the same period in 1984.



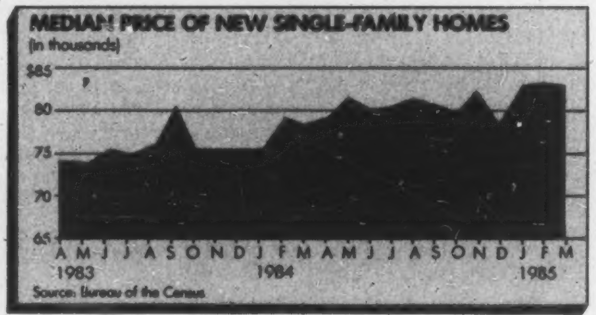
Source: Federal Home Loan Bank Board

Long-term fixed rates rose 4 basis points in April, to 13.81%, and uncapped adjustable rates moved up 9 basis points to 11.77%. Fixed rates were down 31 basis points from a year earlier.



Source: Random Lengths

Lumber prices rose 3% in April to $191 per thousand board feet after declining since January. The April price was 12% lower than a year earlier.



Source: Bureau of the Census

The median sales price dipped by $400 in March to $83,000 from an upwardly revised February price. The March price was $4,600, or 6%, higher than a year earlier.

Carroll Brock from Los Angeles, who oversees M.J. Brock & Son's building operations in Northern California, reported that increasing land-use fees were beginning to slow growth and builders were having to pay as much as $20,000 in fees in some areas. "Some cities and counties even want us to build schools for them," he noted. Multifamily production was up, he added, because tax-exempt bond financing is available.

In answer to a question from moderator Michael Sumichrast, NAHB's chief economist, Brock said that the buy-down situation was horrible: "We had too much inventory this spring and sold houses with 10½ percent fixed-rate mortgages."

Overall, Brock reported, California consumers seem optimistic. "California is getting defense budget dollars. People are coming out to look at homes. It's just tough for them to qualify for mortgages."

Baltimore builder Jim Rubinstein, whose company builds about 250 units a year, reported increased competition from national builders who've discovered the stable Baltimore market. "That's had a tremendous impact on the price of land. Also, it affects our profit margins: We have to compete with builders who work for less than we do and have different goals.

From the Washington area, builder William Berry reported strong, best-year-ever move-up and first-time home buyer markets. Price of land, he noted, wasn't as much a problem as availability. "There are land shortages and it's difficult to find density-zoned ground."

Penelope Lemov, business editor

ECONOMY

TAX PROPOSALS: TOUGH PILLS TO SWALLOW

Washington's smart money is betting that a new tax act will pass this year. And real estate industry experts agree that any of the three proposals being considered, though each safeguards the deductibility of mortgage interest on primary homes, would be a bitter pill to swallow. Each greatly reduces the attractiveness of real estate tax shelters to investors and, consequently, the number of investor dollars that might flow into real estate.

DEPRECIATION ALLOWANCES UNDER ACRS VS. RCRS

Year	ACRS (Inflation irrelevant)	RCRS (3% inflation)	RCRS (6% inflation)
1	$ 50,000	$ 30,000	$ 30,000
2	60,000	29,973	30,846
3	60,000	29,946	31,716
4	60,000	29,919	32,610
5	60,000	29,892	33,530
6	60,000	29,865	34,475
7	60,000	29,838	35,448
8	60,000	29,812	36,447
9	60,000	29,785	37,475
10	60,000	29,758	38,532
11	50,000	29,731	39,618
12	50,000	29,704	40,736
13	50,000	29,678	41,884
14	50,000	29,651	43,006
15	50,000	29,624	44,280
16	50,000	29,598	45,529
17	50,000	29,571	46,813
18	50,000	29,544	48,133
Total	$990,000	$535,889	$691,138

The above calculations assume the purchase of a $1-million building.
Source: Seidman & Seidman/BDO

The proposals under consideration include the Democrat's Bradley-Gephardt, the GOP's Kemp-Kasten and the administration's two Treasury Department versions. The first one, dubbed Treasury I, was written under the aegis of then-Treasury secretary Donald Regan, and the second, Treasury II, is Regan's proposal as revised by current secretary James Baker.

The major sticking points in the Treasury I proposal—factors that show few signs of fading in the Treasury II proposal due at the end of May—are restrictions on the number of limited partners in a syndication; the indexing for inflation of depreciation, capital gains and interest deductions; and the repeal of rapid depreciation.

A recent analysis of the Treasury I proposal by Seidman & Seidman/BDO, a New York accounting firm, and Fine & Ambrogne, a Boston law firm, claims that while real estate investments will be affected adversely, the results won't be fatal.

According to Glenn Davis, the Seidman & Seidman manager who authored the study, "These changes mean investor attention will have to focus on economic incentives such as cash flow, equity build-up and capital appreciation." The so-called 'deep shelters' will be the most adversely affected, he says, but "much of the damage could be undone by modifying the form in which real estate investments are structured, and by putting greater emphasis on their economic, as opposed to tax, benefits."

Seidman's analysis of key provisions of Treasury I also includes a variety of ways of surviving some of the proposed new rules and details the parameters of bad news on others.

■ Limited partnership changes. Limited partnerships, the way most real estate interests are held, have two advantages: an investor's liability is limited to the amount of capital he invests in the partnership; and, second, unlike a corporation, limited partnerships are not taxed at the entity level (that is, the partnership itself is not taxed.) As a result, there is no "double tax" on income, and tax losses pass directly to the partners. Under the Treasury I proposal, limited partnerships of more than 35 people would be taxed as corporations—income would be taxed at the partnership level and again when it is distributed to the individual partners. Losses would offset partnership income but could not offset individual partners' personal income.

The Treasury proposal also would reduce the amount of interest expense that could be deducted by these real estate investors—currently, interest payable on a loan, including a real estate mortgage, is fully deductible. Investment restrictions would apply to limited partners. "As a result," says Davis, "only people with significant amounts of investment income could take full advantage of mortgage interest deductions."

In short, limited partnerships no longer would be a viable entity under the new tax proposal, but Davis points out that the most attractive alternative would be a general partnership. The general partnership does not provide investors with limited liability but, says Davis, "investors could purchase insurance against most risks. They then would enjoy the same tax benefits as limited partners do under present law."

- Depreciation and capital gains. Here, the changes will hurt but they may not be devastating. In the depreciation arena, real estate investments currently are subject to the Accelerated Cost Recovery System (ACRS), which allows real estate to be written off over 18 years. The Treasury proposal would eliminate ACRS and substitute a Real Cost Recovery System (RCRS), which would write off an asset over 63 years. Under RCRS the annual depreciation allowance would be 3 percent of the adjusted basis of a building. "On a $1 million commercial building," the Seidman report acknowledges, "the depreciation would be $30,000, compared to $50,000 under ACRS."

In the capital gains area, basis would be indexed for inflation. According to the analysis, "At an inflation rate as low as 3 percent, the tax on a sale of property would be less under Treasury than under present law. This change, of course, is tempered by calculating depreciation under RCRS." Davis explains that the gain realized upon sale would be the selling price minus the basis of the property adjusted for inflation. "Generally speaking, the longer the holding period and the higher the inflation rate, the more likely an investor's tax liability would be decreased."

Capital gains also would lose its preferential treatment under the Treasury proposal. Gains for sales or exchanges of real estate would be taxed at ordinary income rates, with the highest for individuals being 35 percent, compared to the current 20 percent capital gain rate.

- Interest indexing. Under current law, a taxpayer can deduct all interest payable on debt. Under the proposed Treasury bill, the amount of deductible interest would be adjusted for inflation. According to Davis, the amount of interest an investor could deduct would be reduced by factoring out the inflation element. He offers no quick fixes here.

- Investment tax credits. The Seidman analysis offers no ray of hope for renovators of historical structures who now enjoy a 25-percent credit on rehab spending. The Treasury proposal would abolish investment tax credits, including those for property rehabilitation.

Penelope Lemov

REMODELING

COUPLE COURTS SUCCESS: RENTALS THEIR RACKET

Richard and Mary Kaye Carlson were down Love-30. The seven-year-old indoor-outdoor Colorado Springs tennis club they built and owned just wasn't scoring with players.

So Richard, an architect, went to the net with a radical idea—turning the indoor courts into 37 apartments. Three outdoor courts and a club lounge were left intact.

The result was a smash. Since opening last summer, 33 of the one and two-bedroom units have been snapped up at rents of $385 to $535. Tenants range in age from 22 to 79; most, though, are in their mid-20s.

"The amusing thing about it is, the tenants are not all tennis buffs," says Mary Kaye, who's managing the complex. "Most of them come because the building's layout gives them extra security."

There are only two entrances to the 15,300-square-foot building, which was renovated in 1983-84. Doors to units open to a partially covered central atrium. "We decided not to put in skylights, so we only partially glassed over ceiling openings in the atrium," Richard explains. "That gives the area natural ventilation. And the courtyard stays between 40 and 70 degrees."

The units are narrow and deep—14 by 50 feet. Large windows at either end, however, keep spaces light and airy. The two-bedroom units are on two levels, which, says Richard, keeps them from feeling cramped. It cost $33 a square foot for the renovation.

Called The Courts, the reborn complex takes up one acre of a three-and-one-half acre site. Having rallied from near defeat, the Carlsons are planning to build 70 more apartments on the remaining land. "We have an unusual concept and have had good publicity," says Mary Kaye. "So far, we've had no problem getting people to come out. They're curious."

June Fletcher, features editor

Photo: Richard Carlson

Richard and Mary Kaye Carlson turned an unsuccessful indoor tennis court into an apartment complex that's scoring points with tenants.

MULTIFAMILY

PROJECT OVERCOMES OVERBUILT MARKET

It was the summer of 1983 and, in Houston, apartment vacancies were just beginning to edge up. Unfortunately, Campbell and Company, a Houston multifamily builder, had passed the point of no return on a 348-unit apartment project, the Falls. Ground was due to be broken in September.

"We didn't know we were going to build in the teeth of a glut," recalls Dennis Beverly, project manager for the Falls. "The market was on a downslide but we were too committed to the land and predevelopment expenses not to go forward."

Partnership's multifamily development department, co-ops can be the best option for converting rental projects. Rather than assuming a condo conversion, builders should consider the co-op route, he says.

Co-op conversions have two advantages. A previous blanket mortgage can remain in effect (assuming no due on sale), so the benefits of attractive loan terms for the original rental development can be extended.

Plus, there are tax advantages to the developer in converting to co-op, because profits will be categorized as capital gains on the sale to the co-op corporation (rather than ordinary business income from selling off individual condo units). Also, the seller may be able to avoid tax recapture of prior accelerated depreciation benefits if the current tax basis is merely passed on to the co-op corporation.

Members of the purchasing co-op can keep the blanket mortgage intact and finance the additional portion of the purchase price with individual share loans. At the Washington conference, lenders said they expect most co-op conversion or development to utilize some combination of blanket and share financing for maximum flexibility and risk sharing.

In the congregate housing market for the elderly, co-ops are starting to compete with condos and expensive life care facilities. Targeted to residents over age 75, and providing comprehensive meal, social and health services along with housing, co-op congregate projects offer residents the chance to set their own rules.

"The critical difference between condo and co-op congregate housing is that co-ops have more control over who moves in," Slepin says, because co-ops funnel prospective residents through the board of directors for approval.

National Co-op Bank vice president C. Peter Behringer says he expects co-ops to increase their share of all new housing starts from the current one-half of one percent to 2 percent within the next five years. He reports new sources of financing opening up for blanket project loans.

With possibilities for using pension fund capital, increasing access of share loans to tax-exempt mortgage revenue bond programs and trying lender equity participation deals, "co-ops are coming out of the closet," he says.

Martha Davis, a Washington, D.C.-based free-lance writer specializing in housing issues

MARKETING

BUSINESS IS DUCKY FOR ARIZONA DEVELOPER

There are plenty of hunters for the snowbirds who decide to nest near Sun City, Ariz., but the prime selling season is short—January through April. To bag its share, Universal Development Corporation (UDC) knew it needed decoys. It found them: two high school students dressed as ducks.

Bespectacled, fat and feathered, the ducks cavort, dance and direct traffic off a major intersection into Westbrook Village, a three-year-old planned adult community that eventually will include 3,000 units on 640 acres. Once there, prospects are lured with everything from condos to single-family dwellings, ranging from 909 to 2,162 square feet and costing between $59,400 and $104,400. So far, 400 buyers have bitten the bait.

The ducks debuted during the January grand opening of the project's first condominium. During one weekend, they directed 2,800 visitors to the site, and had photos taken with 600 of them. "We don't have a good window to a major artery," says Frank Taylor, Westbrook's sales manager. "But since the ducks came, business has taken off." He estimates that ducks have boosted sales by about 5 percent.

"And so far, having them at the intersection hasn't ruffled any feathers within the community," he adds. "The cops just wave and honk."

June Fletcher

FINANCE

REITs STAGE COMEBACK AMONG INVESTORS

Remember REITs, real estate investment trusts? Some can't forget them, especially those who invested in them in 1974-75 when several went bust.

But REITs (unincorporated trusts or associations that invest in property rather than stocks or bonds) are roaring back. In their new, 1980s incarnation—30 percent of the 125 REITs are less than five years old—they're not only more attractive to investors but are filling in some of the gap left by the slowdown of syndication dollars into real estate.

Investor interest was rekindled by the Tax Reform Act of 1984 (some financial wags dub it the REIT Relief Act), which curbed some real estate tax shelter write-offs. Investors dumped $1.76 billion in REITs in 1984—a 90-percent increase over 1983's $925 million. In the first quarter of this year, when further tax reforms seemed imminent, $1.6 billion poured into REITs, a 1200-percent increase over the first quarter of 1984 and only 9 percent less than all of 1984.

Investors appear to be gravitating away from tax-sheltered real estate investments to income-producing

CONTINUED ON PAGE 54

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investments, which is where today's REITs are situated. But it's been a long about-face for REITs. In the 1970s, REIT investments were usually highly leveraged mortgage trusts that specialized in construction loans on ill-fated projects or made long-term mortgage loans using borrowed, short-term money. When short-term interest rates spiked new highs, REITs were in deep trouble.

Those days are gone, says Tom Dunbar of the National Association of Real Estate Investment Trusts (NAREIT). "Where REITs had $10 billion in short-term loans in 1975, they have only $750 million in 1985," he says.

The new model REITs emphasize equity investments by buying a diversified portfolio of properties (existing or under construction) or they emphasize participatory mortgages that permit them to share in rents and property appreciation. Today's REITs are divided 60 percent in equity investments and 40 percent in mortgages. "That's the exact opposite of 1975," Dunbar adds, noting that the debt to equity ratios have gone from 4:1 to a sounder 1:1. In terms of yield, equity REITs yield 8.5 percent dividends; mortgage REITs, 11 percent dividends.

Unlike syndications, REITs don't offer tax shelter advantages—depreciation of property is not passed on to investors; dividends are generally taxable. But REITs offer investors other advantages. Almost any investor can come up with enough cash to buy into a REIT; some REITs are priced at $7 a share. (Syndication investments often mean $10,000 to $50,000 minimum investment.) REITs also are liquid since shares trade on the stock exchange. (Syndication investments can tie up money for up to 10 years.)

REIT investment managers are looking around for apartment houses, office buildings and shopping centers to invest in. REITs often become joint venture or limited partners in the acquisition of property (both existing and developing) or they make mortgage loans available to builders of new construction. Some REITs specialize in only one type of investment. First Union, the largest equity REIT with $640 million in assets, invests in suburban shopping malls and downtown office buildings. Others specialize even further. Americana Hotel and Realty invests in Americana hotel properties.

MONIES INVESTED IN REITS
(in thousands)

Year	Investment
1971	$2,540,359
1972	1,417,808
1973	1,320,458
1974	122,984
1975	138,911
1976	118,134
1977	81,247
1978	226,806
1979	246,248
1980	141,926
1981	348,442
1982	402,121
1983	925,886
1984	1,763,198
1985 (1st quarter)	1,605,969

Source: Stephen Roulac & Company; National Association of Securities Dealers

"REITs can provide builders of income-producing properties with relatively inexpensive capital for construction and development projects," notes Stan Ross, co-managing partner of Kenneth Laventhol, an accounting and consulting firm based in Los Angeles. Ross adds that this comes at a time when the cost of construction financing from traditional sources is comparatively high and when some lenders, such as savings and loan associations, are experiencing liquidity problems and are curtailing construction loans. "With the REIT, instead of having to pay 13 to 13.5 percent to borrow, you pay 8 to 10 percent," Ross points out.

There is, of course, no free lunch. In exchange for the lower current cost of capital, the builder gives away equity.

The same investment companies that have been putting syndication deals together for the past few years are also hopping aboard the REIT return express. Consolidated Capital Equities Corporation, Emeryville, Calif., for instance, was one of the 10 biggest money raisers for limited partnerships last year. This year its REITs have drawn twice the investor dollars that partnerships have. Where 60 percent of its invested capital was in limited partnerships 10 years ago, today 60 percent is in REITs, reports Bob DeMonte, executive vice president for public programs.

DeMonte suggests that individual builders should look into forming their own REITs so they can be in control of their own sources of capital. "With mortgage REITs yielding around 11 percent, the builder would have a direct relationship with investors willing to accept 11-percent yields," he points out.

Although Consolidated's REITs generally raise $200 million to $400 million apiece, DeMonte says a REIT would make sense at as low as $5 million to $10 million.

One builder who's gone the REIT route is Melvin Simon & Associates (MSA), a shopping center developer in Indianapolis. Simon started its own REIT, MSA Realty Corporation, last year, raising $20 million in equity and $72 million in debentures carrying 9.25 percent. MSA is participating with Simon & Associates in joint venture acquisition and expansion of existing shopping centers.

Penelope Lemov

ENERGY

FUNDING CUTOFF: A CURE FOR THE COMMON CODE

Question: Where do you find the most stringent energy codes in the world?

Answer: Sweden and South Dakota. South Dakota?

The South Dakota Housing Development Authority (SDHDA) recently adopted a tough energy code for new and existing homes it finances with tax-exempt bonds. Homes financed after April 1, 1985 must meet the code.

CONTINUED ON PAGE 58

- The Atheneum, New Harmony, Ind. Architect: Richard Meier & Partners, New York.
- Corporate Headquarters, AB Volvo, Gothenburg, Sweden. Architect: Mitchell/Guirgola Architects, New York.
- Charles Shipman Payson Building (Portland Museum of Art), Portland, Me. Architect: I. M. Pei & Partners, Henry N. Cobb, Design Partner, New York.
- Weyerhaeuser Technology Center, Tacoma, Wash. Architect: Skidmore, Owings & Merrill, San Francisco.

FINANCE

PENSION FUNDS STILL COOL ON MORTGAGES

Private pension funds have increased their mortgage-related investments but the increase hasn't kept pace with the rise in the funds' assets.

Total assets of private corporate and union pension funds with assets of $5 million or more climbed by $61 billion to $601 billion between September 1983 and September 1984, according to a recently released survey by the Department of Housing and Urban Development. That's an 11-percent increase.

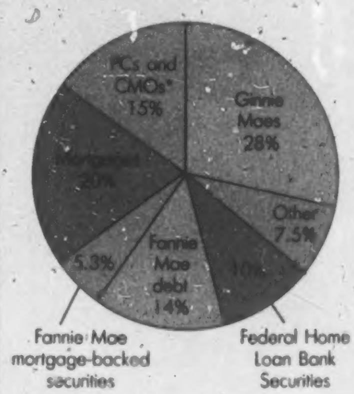
But total mortgage-related investments by those pension funds grew by only $900 million, or 3 percent, to $31.9 billion during the same period. As a result, the proportion of private pension fund assets invested in mortgages slipped to 5.3 percent from 5.7 percent.

Mortgage-related investments "are still a relatively small percentage of their assets," says David Ledford, who follows pension funds for NAHB.

The survey also found that of the $31.9 billion invested in mortgage-related investments, $25.4 billion was in mortgage-related securities and $6.5 billion was invested directly in mortgages.

Ginnie Mae securities were the most popular type of mortgage securities held by private pension funds, amounting to $8.9 billion by September 1984. Nevertheless, Ginnie Mae holdings were down 8 percent from a year earlier.

MORTGAGE-RELATED INVESTMENTS OF PRIVATE PENSION FUNDS
(as of September 1984)



*Freddie Mac participation certificates and collateralized mortgage obligations

Source: U.S. Department of Housing and Urban Development

Another survey by the American Council of Life Insurance found that mortgage-related investments by life insurance companies grew by 12.7 percent to $187 billion during the 12-month period ending in September 1984.

Most of those investments—82 percent—still were in direct mortgage purchases. However, investment in mortgage-related securities (mostly Ginnie Maes) jumped by 55 percent while direct mortgage holdings rose only 6 percent.

Carol Anderson

ENERGY

ENERGY GROUP FORMED FOR EXCHANGE OF IDEAS

Energy-conscious builders now have someplace to go for unbiased information about what works and what doesn't.

A group of builders recently formed the Energy Efficient Building Association (EEBA) to foster the development and dissemination of information on the design and construction of energy-efficient buildings.

Besides builders, the 60 charter members include blower door and heat exchanger manufacturers, state energy office personnel, researchers, home weatherizers, designers, educators and journalists. The Rochester, Minn.-based group also has a few members from Sweden and Canada—trend-setting countries in energy-efficient housing.

To make a major contribution to the energy efficiency of new homes in the U.S., EEBA's major challenge may be to enlist the interest and membership of large production builders, especially from major markets in the Sunbelt. Most builder members hail from northern states, and few built more than 25 homes last year.

President of the group is Brian Curran, a modular-home builder who guarantees that each of his homes will have annual heating bills under $100.

"Energy-efficient housing is not a passing fad," says Curran, president of Buffalo Homes, Butte, Mont. "It's a matter of putting together the best recipes of today's various energy technologies.

"Depending on where you live, there are many ways to provide consumers with cost-effective and comfortable solutions to their housing requirements. We're here to act as a clearinghouse for all systems, not as an endorsement agency for any particular one."

Curran says EEBA intends to avoid the polarized "camp mentality" that seems to form around such specialized building technologies as passive solar, super-insulation, earth sheltering and airtight dry wall.

Through a computer hotline or bulletin board, EEBA members will have access to other builders' reports on their direct experience with a cross section of energy-efficient building systems. The expectation is that builders will be able to get quick answers to both general and specific questions: which design ideas work

CONTINUED ON PAGE 66

LESLIE ENSOR STOCKMAN, DESIGN EDITOR and **JUNE FLETCHER**, FEATURES EDITOR

A MATURING

Photo: The Image Bank/Don Klumpp

MARKET

With 5,000 Americans turning 65 each day, the market for retirement housing is rapidly coming of age. Opportunities exist, and they're certain to increase.

Move over, baby boomers. Make way for your elders, who will constitute housing's hottest market for the rest of the century. The market looks good for two reasons. The number of Americans 65 and older is growing at an unprecedented rate, and their houses no longer suit their lifestyles. Consider these facts:

- Every day another 5,000 Americans turn 65, joining the fastest-growing segment of the population, the elderly.
- The 65-plus population grew by an estimated 6 percent between 1980 and 1983, compared to a 3-percent increase in the under-65 age group.
- There are almost 30 million elderly Americans; or put another way, about 1 of every 8 Americans is 65 or older.

The growth in this sector will continue, too, so that by 2030 one in every five Americans will be over 65. And not only are the old increasing in numbers, they're getting older: At 2.2 million, the 85 and older age group was 20 times larger in 1980 than in 1900 and it's predicted to grow to 3.5 million by 1990.

Although poverty still plagues many elderly, this segment as a whole is surprisingly affluent. In 1983, 39 percent of elderly households had incomes of at least $20,000. The elderly also are equity-rich, with 72 percent of elderly couples owning a home and 84 percent of that group owning them free and clear.

In many cases, though, the homes they own no longer are suitable. They're big and expensive to maintain. (Nearly half of the houses owned by older people were built before 1940.) Often they impose physical and social barriers to a full and comfortable life.

Many elderly live in deteriorated urban neighborhoods that are losing services, shops and long-time residents. The elderly who remain feel isolated and become easy targets for crime. Elderly living in the suburbs fare somewhat better, but in many towns they're tying up affordable housing that would be more suitable for young families.

Even if their houses are well-located, older houses are often too much house for older owners. They tend to be expensive to heat, require many repairs and lots of yard work.

Yet many hang on to them, not simply out of sentiment but because there are neither affordable nor appropriate alternatives. "There isn't enough housing designed specifically for older people and what housing there is often isn't in the right location," says Leo Baldwin, coordinator of the American Association of Retired Persons's special projects. As a result, most elderly prefer to stay in their homes rather than move to a new town or even a new neighborhood.

All these facts and figures have stirred up the home building industry. Many predict housing for the elderly will boom in the late 1980s and 1990s the way housing for singles boomed in the 1970s and early 80s. Before too much ground is broken, however, it's time to look closely at this market. Is it as deep as it looks? Where are the opportunities for home builders and what are the pitfalls? And, most importantly, can home builders deliver the housing this market needs?

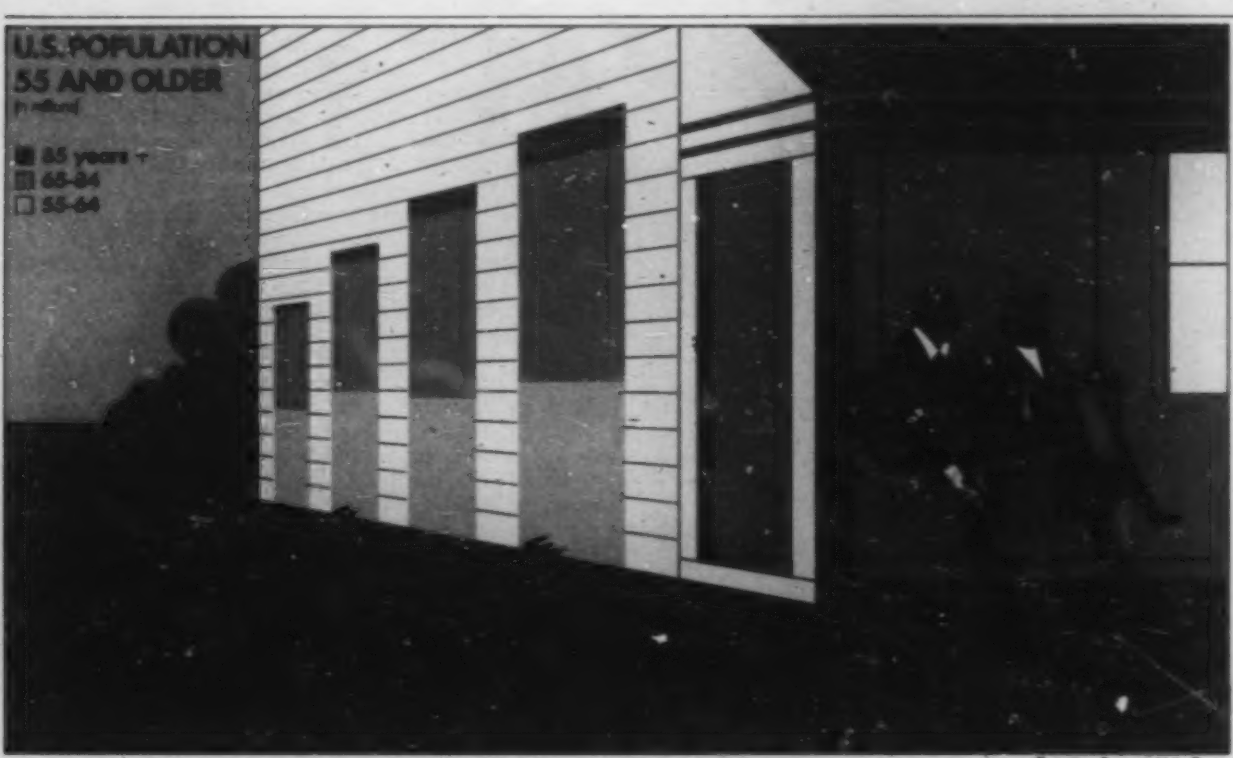


Illustration: Bergman Hale Design

Mention retirement housing and most people think of the Sunbelt. Contrary to popular belief, however, most elderly don't yearn for a condo on the Gulf or a cottage in the desert. They almost always stick close to home, where family, friends and a lifetime of associations are. Only 4 percent of the elderly population moved to a different state in 1979.

In fact, of the seven states that account for half the country's elderly population, four—New York, Illinois, Ohio and Pennsylvania—are in the North. The others are Florida, California and Texas. "Builders thinking of entering this market should look for opportunities in their own backyards," says market consultant William Smolkin of the New Orleans-based firm, Hebert/Smolkin Associates.

The seniors market may be ubiquitous, but as Smolkin's analysis of the U.S. Census data shows (see charts on page 74), it's not necessarily deep. This is a pretty stationary population. While 23 percent of the general population changed address in 1980, only 9 percent of households 65 to 74 years old moved and 5 percent of those between 70 and 84 moved. Eliminate those whose incomes fall below $18,500 and that's an annual market of less than 170,000 elderly buyers and renters spread across the entire country.

The market doesn't tie up into one neat bundle, either. It's comprised of at least three segments, which break down as follows:

- ages 65 to 74, the young retirees;
- ages 75 to 85, still independent but slowing down; and
- ages 85-plus, the frail old.

Each segment has distinct housing needs. "Market research is critical in housing for the elderly because as the market gets older its housing needs become less and less like housing for the general population," says John Hebert of Hebert/Smolkin. Building for this market often means offering more than shelter; projects can resemble the hotel business or the health-care business more than the housing business.

Housing for retirees falls into three categories, with plenty of variations within each type. They are:

- age-segregated communities for active retirees;
- congregate housing; and
- life care communities.

Age-segregated communities are the most familiar territory for many home builders. These projects limit buyers to people older than 45 or 50, though in fact the actual age of buyers usually is over 60. The lower entry age gives the project a youthful image that is in sync with the way active retirees see themselves.

Active is the operating word here. Golf, tennis, jogging, cycling and swimming are some of the many activities that the newly retired throw themselves into, and many communities offer lavish facilities that cater to these enthusiasms.

Sun City near Phoenix is perhaps the most well-known and certainly the oldest and largest community for active retirees in the country. It has 11 golf courses, 7 swimming pools and 17 tennis courts for its 46,000 residents. And there's plenty more, from boccie courts to concert halls in the 8,900-acre project.

That represents a staggering investment unlikely to be repeated in the future, even by Sun City's developer, Del E. Webb Development Co. Although its second community, Sun City West, is on a scale comparable to Sun City, expensive land and money will force the company to hold future developments to about 15,000 residents, according to president Paul Tatz. "But we'll continue to put in the infrastructure and the amenities up front," he adds. "You can't sell homes in this market without them."

That's true even on a smaller scale. J. S. Hovnanian & Sons, Mount Laurel, N.J., isn't putting a golf course in its 717-unit Holiday Village, a community for those 52 and older. But it does have a ballroom in the clubhouse. Hovnanian's research showed that its buyers rated dancing their number-one recreational activity.

At Holiday Village, which draws from the Philadelphia metropolitan area, buyers are like the vast majority of the nation's retirees. They don't want to leave their roots. "Our buyers won't go more than an hour from where they lived," says Stephen J. Hovnanian, vice president of marketing and operations. "And they prefer to be within a half hour of family and old friends."

Sun City, on the other hand, draws mobile retirees, but it still must make the move as trouble (and trauma-) free as possible. Prospective buyers can spend a week or two vacationing at Sun City West or they can rent an apartment there for a year before buying a house. Both programs are designed to let people "test drive" the community before committing themselves to it.

The typical product for active retirees is a downsize, single-story, single-family house or duplex unit. Downsizing is a relative term, however. At Sun City, the average house has grown from 1,000 square feet when the project opened 25 years ago to about 2,000 square feet today. Tatz says the increase reflects the general increase in house size and an increase in the number of bathrooms people expect. Sun City also attracts affluent buyers, whose average net worth is more than $200,000.

Pricing is tied to the value of the buyer's previous home, so a builder should know exactly where his buyers are likely to come from. "Builders should know the value of the homes their prospective buyers are selling and understand that a major portion of their equity, but not all of it, will be reinvested in housing. This market wants something left over to invest for future income," advises Stephen J. Hovnanian.

Projects such as Holiday Village and Sun City are marketed to and attract younger retirees. But the fastest-growing sector of the elderly population is older and needs a different kind of housing. Most people between 75 and 85 lead independent lives but need help with meals or housekeeping as they slow down. This can be a time of loneliness for people, too, as spouses and old friends die.

Congregate housing can be their lifeline, providing

PROJECT TYPES

Active retirement communities

These communities span a range of projects from entire new towns to modest subdivisions, but in all of them people must be of a certain age, usually about 50, before they can move in. Most offer a rich range of recreational opportunities, either as part of the project, such as a golf course community, or by virtue of its location, in a resort town, for instance. These projects attract active retirees (65 to 74 years old) and pre-retirees (55 to 64 years old) and don't provide health care facilities. But as these projects age, so do their residents, creating a demand for health care and other support services.

Congregate living

This is an updated version of the boarding house. Residents have their own apartments, complete with at least one bedroom and a kitchen. But one or more meals a day are served in a common dining room. This relieves older people from daily cooking chores and offers residents a chance for social interaction. Weekly maid service, transportation and organized activities usually are included in the rent, but most congregate projects don't provide health care services. Congregate housing allows ambulatory persons to live independently of their families. Residents usually are between 75 and 85 years old.

Life care communities

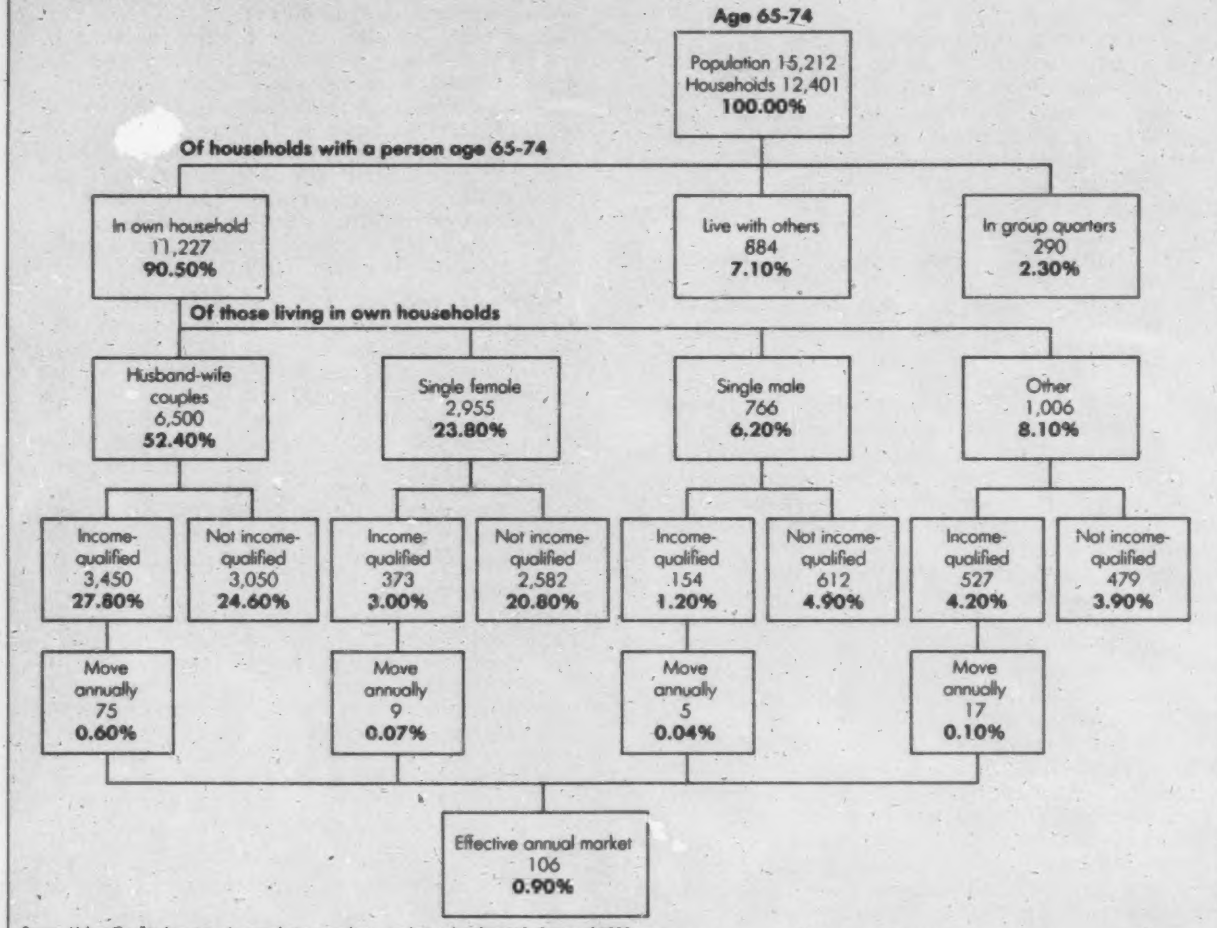
Usually campus-type projects, life care communities provide for nearly every contingency in an older person's life. Housing usually ranges from independent, detached cottages to skilled nursing facilities, with several levels of assisted living in between. Most of these projects require residents to pay a substantial entry fee as well as monthly rent in exchange for housing and care for the rest of their lives. But some life care developers now are abandoning entry fees in favor of a pay-as-you-go approach to health and support services. Life care residents usually are 85 years or older.

MARKET BREAKDOWN

The elderly market is not monolithic. Instead, it has three major segments, each with specific characteristics—defined by age and general fitness—and needs in shelter. Here's how most experts on elderly housing break down the market:

- The go-go's. These are the "young" retirees, 65 to 74 years old. They are active, independent and want to enjoy their newly acquired leisure.
- The slow-go's. People between 75 and 85 years old who are starting to slow down but aren't ready for the rocking chair yet. They may, for example, enjoy a putting green instead of a full-fledged golf course. They may want a little help with meals and housekeeping. This is the prime market for congregate housing.
- The no-go's. Yes, there are exceptions, but after 85 most folks have slowed down. They need help beyond meals and housekeeping. Services from personal care with dressing, bathing and other daily functions to skilled nursing care often are required.

INCOME-QUALIFIED MOVER MARKET, AGE 65 TO 74
(in thousands)


Age 65-74
Population 15,212
Households 12,401
100.00%
Of households with a person age 65-74
In own household
11,227
90.50%
Live with others
884
7.10%
In group quarters
290
2.30%
Of those living in own households
Husband-wife couples
6,500
52.40%
Single female
2,955
23.80%
Single male
766
6.20%
Other
1,006
8.10%
Income-qualified
3,450
27.80%
Not income-qualified
3,050
24.60%
Income-qualified
373
3.00%
Not income-qualified
2,582
20.80%
Income-qualified
154
1.20%
Not income-qualified
612
4.90%
Income-qualified
527
4.20%
Not income-qualified
479
3.90%
Move annually
75
0.60%
Move annually
9
0.07%
Move annually
5
0.04%
Move annually
17
0.10%
Effective annual market
106
0.90%

Source: Hebert/Smolkin Associates Inc., marketing consultants, analyzing data from U.S. Census of 1980

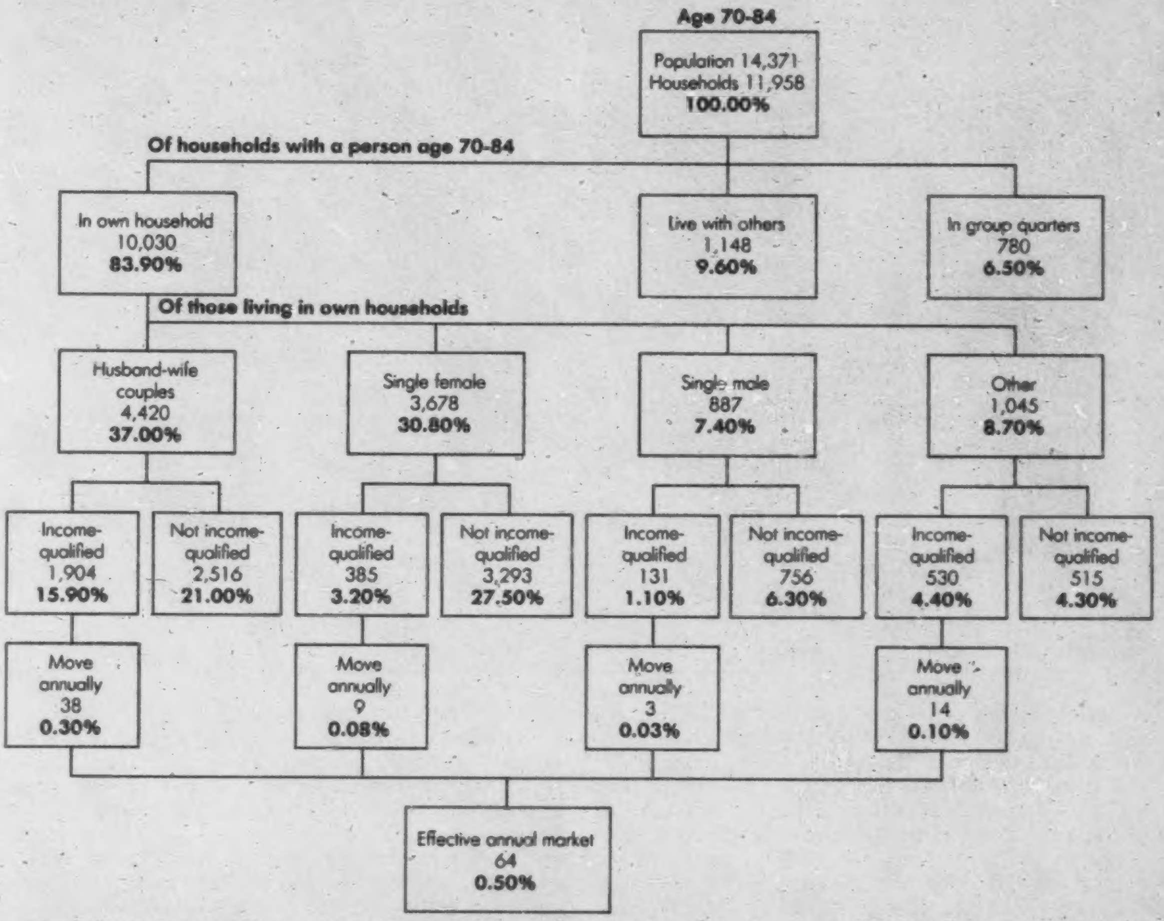
physical support and a built-in social life. Usually rental projects, such facilities offer a small but complete apartment and one or more meals a day served in a common dining room. Usually maid service, transportation and organized social activities are included in the rent.

Smolkin believes congregate housing is a good opportunity for builders as long as services stop short of health care. As it is, the daily management of a facility that offers meals, housekeeping, transportation and social programs will be enough to discourage most builders from entering the field.

But home builders have some skills that give them an edge over the not-for-profit developers who have traditionally dominated this market. Builders can deliver the housing itself more efficiently and, therefore, more inexpensively. M. Stroud Curran, manager of Laventhol and Horwath Health Care Division, Philadelphia, believes that if builders can deliver lower-cost congregate housing, the market will expand dramatically. "Until recently, hard costs for these projects were $60 or $70 a square foot, but now we're seeing [building] companies that can put them up for $30 a square foot or less," Curran says.

Pacific Scene Inc., San Diego, is a good example of a home builder that is entering the retiree market. This year the company will open 14 projects in California, Arizona, Texas and New Mexico. Pacific Scene believes its residential expertise will enable it to deliver better-designed, higher-quality housing than many of the nonprofit sponsored and HUD-subsidized projects already on the market. And it will

INCOME-QUALIFIED MOVER MARKET, AGE 70 TO 84
(in thousands)


Age 70-84
Population 14,371
Households 11,958
100.00%
Of households with a person age 70-84
In own household
10,030
83.90%
Live with others
1,148
9.60%
In group quarters
780
6.50%
Of those living in own households
Husband-wife couples
4,420
37.00%
Single female
3,678
30.80%
Single male
887
7.40%
Other
1,045
8.70%
Income-qualified
1,904
15.90%
Not income-qualified
2,516
21.00%
Income-qualified
385
3.20%
Not income-qualified
3,293
27.50%
Income-qualified
131
1.10%
Not income-qualified
756
6.30%
Income-qualified
530
4.40%
Not income-qualified
515
4.30%
Move annually
38
0.30%
Move annually
9
0.08%
Move annually
3
0.03%
Move annually
14
0.10%
Effective annual market
64
0.50%

Source: Hebert/Smolkin Associates Inc., marketing consultants, analyzing data from U.S. Census of 1980

be able to deliver that housing efficiently and on budget, so that it will be within the reach of moderate-income elderly.

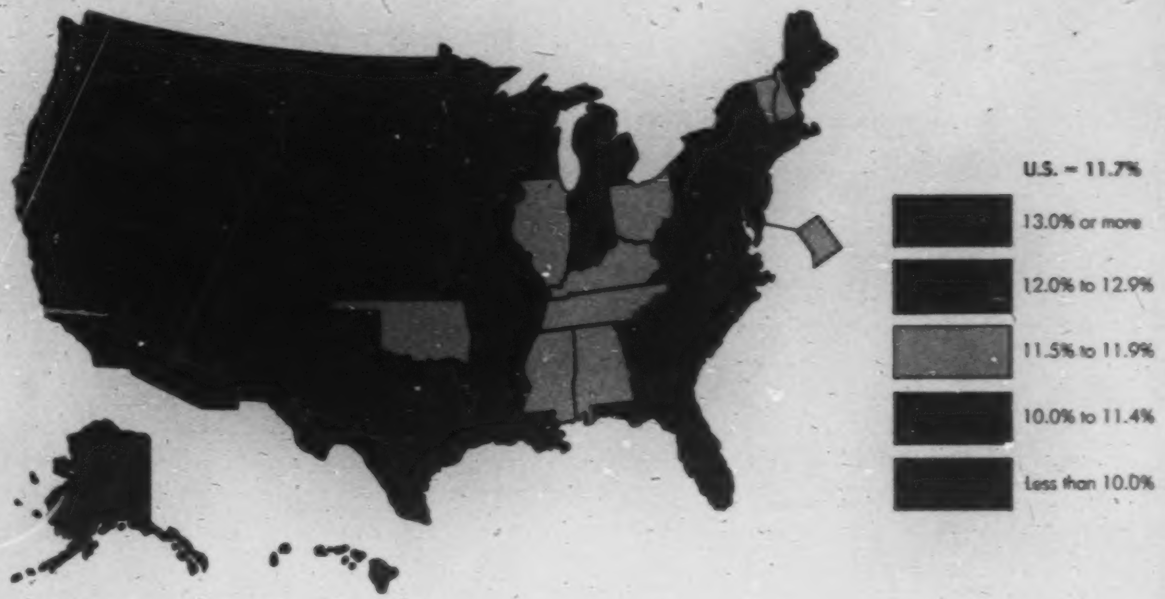
"Sheer demographics" convinced Pacific Scene to expand into the retirement market. "We saw a growing market that was not being adequately addressed," says Phil Rush, vice president. But Alan Scott, vice president of development, Wallick Company, Columbus, Ohio, views the numbers with skepticism born of 15 years in the elderly housing market. "Never overestimate the market," he cautions. Location, as usual, is the cornerstone of success.

The best places to build congregate housing are in areas that have significant numbers of elderly residents living in their own homes. Leon Ruderman, partner in T & R Development, a Los Angeles-based builder of congregate facilities, offers this rule of thumb: "Count the number of seniors within a 20-minute drive of a particular site; 3 percent of that number will be your market but build for 1.5 percent to be safe."

The site itself should be within walking distance of shopping and in a good residential neighborhood. Ideal locations, though, can have one big drawback. "Adjacent property owners usually aren't thrilled to have this type of project next-door," says Judith Hamburger, project manager at CEH Partnership, Washington, D.C. Younger people especially object to the scale of these projects and the image an "old folks home" brings to the neighborhood, Hamburger notes.

Pacific Scene, for its part, has encountered little or no resistance to its congregate projects. The key to neighbor-

PERSONS 65+ AS PERCENTAGE OF TOTAL POPULATION
(1983 data)



Source: U.S. Bureau of Census

hood acceptance may be building height. The California developer's projects are only three or four stories high, while CEH must build more densely in order to pencil out.

Congregate housing can be a tough sell to the buyer as well. It's the last move a person is likely to make and is fraught with emotion. "You not only have to sell the concept to the buyer, you have to sell it to his or her trust officer, accountant and kids," says Maria Dwight, president of Gerontological Services Inc., a marketing research firm in Santa Monica, Calif. It can take six to 10 visits to a project before a person decides to move in. Sales people must be especially patient. And, because congregate housing is a new concept, education plays a big part in marketing. Ruderman has a high-powered video presentation he shows to prospective buyers, groups of retirees and civic organizations. Hamburger believes that, at the very least, a builder must have a model unit.

The biggest hurdle for would-be developers of congregate housing, however, may be the day-to-day operation. "Be prepared to be both a hotel operator and a social service agency," says Alan Scott. Food service, housekeeping, janitorial services, transportation services and social activities take congregate housing beyond the scope of normal multifamily rental management. And the management can make or break a project. "When we see a lot of people moving out, we know we have a bad manager," says Ruderman.

He looks for hands-on people to manage T & R's properties. "We want someone who doesn't balk at pitching in when, say, the dishwasher doesn't show up," he says. The manager has to be sympathetic, too, often acting as a counselor and friend to the residents, yet all the while keeping an eye on the bottom line. Many in the field shy away from nursing home administrators who tend to treat residents like patients, creating a deadly institutional atmosphere.

Lease up time for congregate housing can take up to two years for a 120-unit facility. An absorption rate of about four units a month seems to be the norm. But the developer has to deliver services from day one. "You build up a significant operating deficit for the first couple of years," Wallick Company's Scott says. That can turn off lenders, especially because very few of them have financed congregate housing.

Rents for congregate apartments naturally depend on location and on the extent of services offered. Pacific Scene estimates that rents at its 14 projects will range from $950 to $1,400 monthly for a one-bedroom unit to $1,250 to $1,800 for two-bedroom units. Included in that will be two meals a day, weekly maid service, social activities, scheduled transportation and all utilities but the phone.

Congregate housing is undoubtedly a complex business, but life care developments—projects that provide housing, meals, services and medical care—are even more complex. "Life care is really four businesses in one: housing, social services, nursing home and insurance. The insurance is the most complex," says M. Stroud Curran.

In at least 10 states life care communities are regulated by state government. That's because these communities require buyers to put up large sums of money, called an endowment, in return for the guarantee that they will be taken care of for the rest of their lives. States can require financial disclosure, cash reserves and escrow accounts from life care developers.

There have been enough bankruptcy stories in this field, too, to discourage all but the most intrepid builder. One such story is Fiddler's Wood near Philadelphia, a $33-million project in the wrong location. There weren't enough retired people living in its vicinity, so few units were sold. The project never opened and subsequently was sold for $11 million, Curran reports. In bankruptcy cases, courts have favored the tenants, holding developers to their obligations despite financial straits. "So far no old people have suffered in a bankruptcy case, and that scares lenders," Curran adds.

Life care is obviously not a business for every home builder. But it's become a logical progression for Dunn Wright, an Englewood, Colo., developer of congregate apartments. "Many of our tenants no longer could care for themselves," says partner William Wright. That led the builder to add catered living (daily assistance with dressing, housekeeping and meals) and nursing home care to two of its facilities. But the builder had to hire an experienced health care management company before its lender would give the go-ahead.

The field is attracting some of the country's biggest operators, too. Oxford Development Company, a Bethesda, Md.-based developer of rental housing, sees life care as a logical extension of its businesses.

Oxford plans to have 2,000 units on line this year. The first project will open in Orlando, Fla. It will offer a range of for-rent housing, from patio homes for those who want completely independent living to congregate apartments with catered living services. There will be a nurse on duty 24 hours a day and Oxford will build a nursing home as soon as the state issues a certificate of need.

Residents won't pay an endowment but rents at the Orlando project will start at $1,000 a month for a one-bedroom unit, with one meal a day, weekly maid service, laundry and medical alert system included. Residents will be able to buy more services (for example, two meals a day or extra housekeeping) if they wish. Medical services, personal care services and nursing home care will be on a pay-as-you-go basis.

The developer also is planning more moderately priced communities in which more services will be optional. Oxford plans to apply the expertise it's developed in building and managing 25,000 apartments to providing and managing the shelter aspects of the communities. But it will hire third-party managers for areas such as food service in which it has as yet no expertise.

THE 65+ POPULATION BY STATE

(1983 data)

State	Number (in thousands)	Percent of all ages
Alabama	469	11.9
Alaska	14	3.0
Arizona	356	12.0
Arkansas	329	14.1
California	2,615	10.4
Colorado	270	8.6
Connecticut	398	12.7
Delaware	65	10.8
District of Columbia	74	11.8
Florida	1,867	17.5
Georgia	563	9.8
Hawaii	89	8.7
Idaho	105	10.6
Illinois	1,331	11.6
Indiana	624	11.4
Iowa	404	13.9
Kansas	319	13.2
Kentucky	431	11.6
Louisiana	426	9.6
Maine	149	13.0
Maryland	434	10.1
Massachusetts	763	13.2
Michigan	983	10.8
Minnesota	508	12.3
Mississippi	303	11.7
Missouri	674	13.6
Montana	93	11.4
Nebraska	213	13.3
Nevada	81	9.1
New Hampshire	111	11.6
New Jersey	922	12.3
New Mexico	130	9.3
New York	2,223	12.6
North Carolina	667	11.0
North Dakota	85	12.5
Ohio	1,250	11.6
Oklahoma	393	11.9
Oregon	333	12.5
Pennsylvania	1,639	13.8
Rhode Island	135	14.1
South Carolina	321	9.8
South Dakota	95	13.6
Tennessee	554	11.8
Texas	1,470	9.4
Utah	123	7.6
Vermont	62	11.7
Virginia	554	10.0
Washington	475	11.0
West Virginia	251	12.8
Wisconsin	600	12.6
Wyoming	40	7.9
U.S., total	**27,383**	**11.4**

Source: U.S. Bureau of Census

A TOUCH OF CLUB MED ON THE PACIFIC

There's a place for the retiree who doesn't feel retiring: Leisure Technology's $235-million community in Oceanside, Calif.

With 1,700 units projected, Leisure Village Ocean Hills is Greece on the Pacific, with a touch of Club Med. On the 353-acre grounds there are boccie and shuffleboard courts, a racquet club, golf course, swimming pool and spa. In the 27,000-square-foot clubhouse, there are Nautilus facilities, a television and radio broadcast center, a chamber music studio, and an auditorium seating 900 with a concert hall, stage, ballroom and banquet hall. There are also ceramic and painting studios, photo labs, woodworking and lapidary workshops and a sewing room.

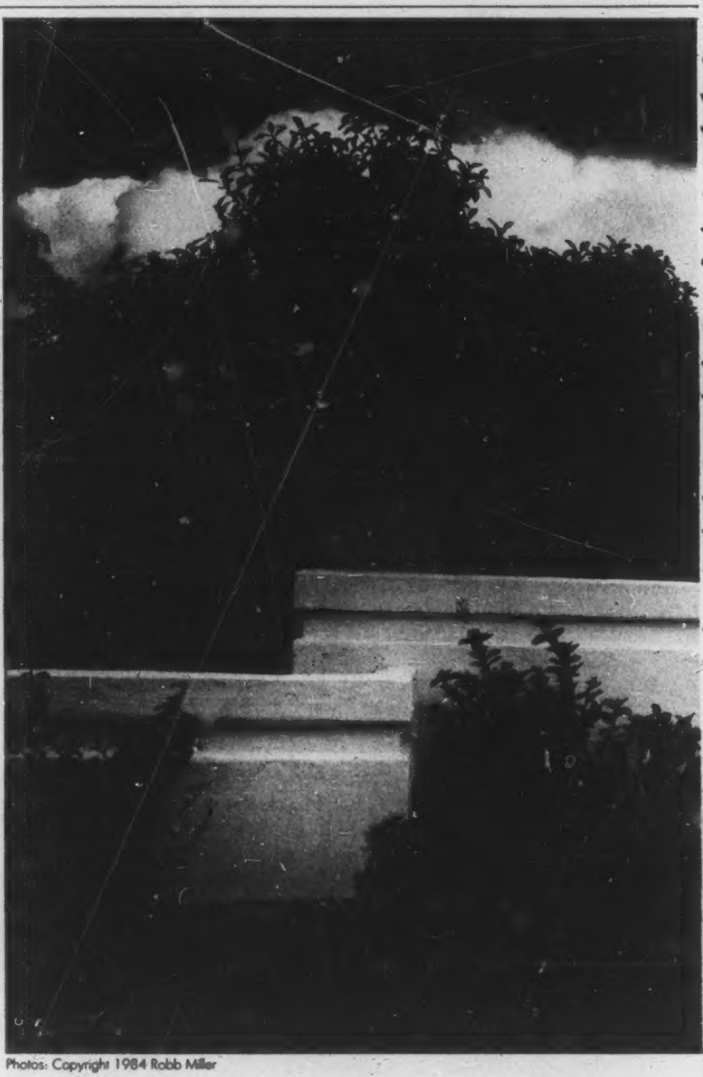
Residents who purchase villas in one of the eight subdivisions modeled after Greek villages may use all the facilities without charge. Designed by Barry Berkus Group Architects in Santa Barbara, Calif., the one and two-bedroom villas range between 970 and 2,025 square feet and cost between $120,000 and $185,000. There's a choice of six floor plans and two elevations. Homeowners' fees average $150 a month.

Residents must be 55 to purchase a villa; the average buyer is 65. Michael Tenzer, president and chief executive officer of Leisure Technology, says the project's opening was the most successful in the company's 27-year history. Within the first three weeks of its May 1984 opening, the first village of 283 units sold out. Sales of the second phase, currently under construction, are strong.

Leisure Technology is the country's largest developer of adult and retirement communities, with revenues for the first three quarters of fiscal 1985 at $64 million. Currently developing 11 other active retirement communities in five states, Leisure Technology recently created a subsidiary, LeisureCare, to joint venture congregate rental communities with different health care providers.

But though Leisure Technology specializes in housing for the elderly, Tenzer cautions builders against blindly leaping into the fray. "The adult and retirement market is capital and labor-intensive," he says.

Builders wishing to enter the retirement market must shift gears mentally, he adds. "Price, financing and commuting distance are key marketing factors in primary housing," he says. "Community security, low maintenance costs, lifestyle and proximity to family, medical services, shopping and cultural activities are the prime requisites for older people."



Photos: Copyright 1984 Robb Miller

HOMEY AND COMFORTABLE SURROUNDINGS

A large active retirement community must be flexible. It must serve the needs of both the robust and the frail members of the community. And it must do so without seeming institutional.

Such considerations shaped the development of Providence Point, a condominium project with 1,106 projected units in Issaquah, Wash. Designed by The Bumgardner Architects in Seattle, the $140-million project has a wide range of amenities for its mostly middle-class clientele. For the active, there are tennis, shuffleboard and boccie courts, a swimming pool, bowling alley, walking trails, arts and crafts rooms, and two restaurants. For the less independent, there's a congregate building where residents may have meals prepared for them. And for those needing nursing care, there's a 120-bed nursing home under construction, surrounded by small apartments for those not needing full-time treatment.

The residents' health needs also governed the design of the two-story condos, which are clustered in five villages. Built on a slope accessed by covered bridges, the units allow direct access to both levels without using an elevator or stairs. The one and two-bedroom condos, ranging in price from $57,000 to $205,000 and in size from 592 to 2,086 square feet, are "handicap ready." "We were careful not to make them handicap units," says Ed Dean, president of Swanson-Dean Corporation of Bellevue, Wash., the project builder and developer. "We didn't put grab bars around the tubs, which is very institutional, but all the backing for the bars is built in if someone needs it later."

Each unit also has an alarm system, connected to a central computer that stores information about a resident's medical history and the names of doctors and family members. While paramedics are dispatched, doctors and relatives are notified immediately.

Since the project opened in May 1984, 104 units have been built and sold, and there's a waiting list of 400 potential buyers. According to Dorla Allred, the project's sales and marketing director, prospects tend to be in their early 60s, and not all of them are retired. "Almost all of our buyers are local," she says. "A lot of them have kids in the greater Seattle area." Radio has been the most effective advertising tool, Allred says, along with on-site seminars, celebrity luncheons and some direct mail.

The 180-acre project was created from the former campus of The Sisters of Providence, a Catholic order that sold the property to the adjacent Lutheran Bible Institute (LBI) in

1979. Though Swanson-Dean now owns the land, the nuns will run the nursing home, and residents will be able to take classes and use facilities at LBI. Other management services will be handled by a local firm, The Jorgensen Company Inc. "Planning the community and fine-tuning everything took about five years," says Allred. "But we think we've created something that really meets the needs of the elderly."

Photo: Courtesy Ross & Sullivan Communications

COMMUNITY OUTREACH

Washington Abbey is a congregate facility for those who don't want a cloistered retirement.

The $4.8-million project on a half-acre tract is in the heart of downtown Eugene, Ore. Developed and built by L.R. Brant and Associates, the project's centerpiece is a remodeled church. Within are office and commercial space, a dining hall, health spa, solarium, woodworking shop and game room. Most of the amenities are open to the public, and visitors are welcome at many of The Abbey's social functions. "We want The Abbey to be a resource to the outside community," says John Rude, the project's marketing director. "And we encourage residents to be involved in community affairs. So many retirement projects are self-contained environments. That's against our philosophy."

In line with that philosophy, The Abbey makes its dining room available to civic groups and hosts "dinner theater" parties where residents can mingle with the public. Regular open-house Sunday brunches often draw more than 100 visitors. "It's a useful marketing tool," says Rude. "Most of the people who come by for a function stay for a tour."

The facilities include 50 units of one bedroom and one bath to two bedrooms and two baths, ranging from 400 to 1,150 square feet. Designed by local architect Merrill Kittinger, they are available on a life-estate or yearly lease basis. The life estate requires an entry fee of $27,000 to $70,000, of which 80 percent is returned eventually to the resident or his estate. Additionally, there's a monthly service fee of $425 to $800. The yearly lease plan requires a $500 security deposit and a monthly rent of $660 to $1,400. A second person can be added to either plan for $160 a month.

There are no on-site health facilities, but each unit has an emergency call system. Should a resident become ill, The Abbey will provide tray service and can arrange for private-duty nursing. When a life-estate resident must enter a nursing home, The Abbey pays the home a per diem supplement.

A nonprofit corporation set up by the owners, Eugene Community Investment Company, manages all services with an in-house staff. Opened in June 1984, the community is about 25 percent full, with most residents coming from the local area. Advertising on television, in local newspapers, and in a monthly newsletter distributed to all visitors targets an upper-middle class retiree in his mid-70s. Reaching this group, Rude says, requires research and creative thinking. "The whole retirement arena is outdated," he maintains. "So much product has a medical model in mind. People reject it. I think retired people want to be more mobile, to expand their possibilities. And they're willing to spend money on themselves, not save it for their estates."

A SECURE, ACCESSIBLE SETTING

A congregate care community need not have a large campus or medical facilities to be successful. Without either, The Atrium in Sacramento was rented in six months.

The 152-unit project sits on a roughly triangular site of 6.24 acres. The 440-to-722-square-foot apartments (studios to two bedrooms with one bath) occupy the perimeter. Inside, in a mall dotted with trees, are the amenities: a patio, spa, barber and beauty salons, poolroom, crafts and recreation room, library, lounge and dining hall. Taylor Development Company of Sacramento, the owner, developer and manager of the property, runs all of the services except the salons.

According to Kathy Staker, operations coordinator for Taylor Development, the enclosed environment (patrolled by security guards) makes residents feel safer. It also provides a focal point for the community, encouraging socializing. Both are important considerations in site plans for the elderly, who tend to withdraw unless they are given secure, accessible settings in which to meet other people.

Although each apartment has its own kitchen, residents receive two meals a day at the central dining hall. The meals are included in the monthly rent of $700 to $1,250.

Designed by Vitiello + Associates Inc. of Sacramento and built by F.B.D. Development Inc. in Fair Oaks, Calif., The Atrium opened in February 1984. With only local advertising, the $6-million project rented rapidly. There's now a waiting list of 45 applicants.

"Our residents range from 62—the minimum age allowable—to the 90s," says Staker. "The average age is 80. Residents come from all over the country. Most of them heard about us from their families around Sacramento."

The Atrium's residents must be healthy and reasonably mobile to remain there. Though each unit has an emergency medical call button connected to the central switchboard, there are no on-site medical facilities. "In an emergency we call the paramedics," says Staker. "But if a person needs nursing care, he has to leave."

Nevertheless, The Atrium flourishes in the face of some stiff competition. One nearby congregate rental project is Crosswind Oaks, which Taylor Development Company built nine years ago.

"We learned a lot from Crosswind Oaks," says Staker. "One thing we learned is, you have to have staff and expertise to make a project successful.

"Still," she adds, "there's money to be made. And it's not out of the scope of anyone who wants to learn to do it."

OFFERING SERVICE WITH A SMILE

CONGREGATE LIVING

Traditional touches, such as a stone fireplace, courtyard balconies and Tudor-inspired trim, add charm.

In congregate housing, curb appeal takes a back seat to service and security. That's the operating principle of The Gables at Old Farms Forest in Farmington, Conn.

"You have to have a beautiful facade to get people to come here, but you need operating skills to keep them," says Andre La Rochelle, executive director of the 100-unit rental community. "It's one thing to build a facility. It's another to create the proper spirit."

At The Gables, creating the proper spirit means taking away the burden of as many routine chores as possible. Transportation, weekly housekeeping and linen services, 24-hour security and social activities are provided by an in-house staff. Waitresses serve dinner each night in the dining room (each apartment also has a kitchen). The staff is coached on keeping the service attentive, responsive and unhurried. "The people who come here have been dining all over the world," says La Rochelle. "You can't give them a fast-food hamburger."

All this coddling costs $1,090 to $1,675 a month per person (a second person in the same apartment is $300 a month more), plus a $300 administrative fee upon entry. The apartments range from studios to two bedrooms with one bath, and from 500 to 925 square feet. Residents can choose from 17 floor plans, most of which overlook a man-made lake on the 20-acre site.

Childs Bertman Tseckares & Casendino Inc. of Boston designed The Gables, and Devonwood Inc. of Farmington built it. Since its opening last November, it has achieved 90-percent occupancy. Residents must be at least 62; the average age is 81. More than 80 percent of them are from Connecticut or have family in the area. "We've only had to advertise in local newspapers," says La Rochelle. "We slant our ads to service, not bricks and mortar," adds Raymond Dunn III, executive vice president of The Edward Le Roux Group of Woburn, Mass., which co-owns (with two local businessmen) and manages the $4.6-million project.

According to Dunn, The Le Roux Group began as a hospital service company in the late sixties and expanded into housing for the elderly a decade later. Although the company specializes in developing hospitals and medical centers, there are no on-site medical facilities at The Gables. The owners do lease on-site space to private physicians, however, and have equipped each unit with an emergency medical call system. Should their health fail, residents are given priority placement at a local nursing home.

In Dunn's view, the best way to attract the elderly market is to calm their worries about health and mobility while providing the most independent environment possible. Fancy facades and high-tech facilities are just window dressing. "There's no impulse buying among the elderly," Dunn says. "They've seen everything in life and are suspicious of hotshot stuff. Soft sell works best."

CAMPUS-LIKE ATMOSPHERE

Because life care appeals to older retirees, convenience is essential. And Duncaster Life Care Center in Bloomfield, Conn., tries to anticipate every need.

"We try to replicate the world at large," says Mark Steiner, president of General Health Management Inc., which manages the project (a subsidiary of the firm, Hartcare Inc., is the developer). The firm is based in Bloomfield.

On 72 acres, the community has a 60-bed nursing facility with all private rooms, and an outpatient clinic. There are also a dining hall, where residents can elect to have one to three meals a day, an auditorium seating 300, a library, an arts and crafts room, a men's club, a woodworking shop, music rooms, a chapel, barber and beauty salons, a working greenhouse and a travel agency. Everything is managed in-house, with the exception of a resident-run general store, an exercise studio run by an outside consultant and a branch office of a local bank.

The 216 units were designed by Stecker La Bau Arneill McManus Architects Inc. and built by General Contracting Company Inc., both of Hartford. The studios to two bedrooms with two baths range from 540 to 1,150 square feet. Residency is by life estate, requiring an entry fee of $50,000 to $116,000 and a monthly fee of $1,000 to $1,600. If a resident leaves within 90 days of occupancy, the full entry fee is refunded; thereafter, the fee is returned on a sliding scale basis. After 44 months, the entry fee is not refunded. Fees include full nursing care.

The project opened in May 1984 and is now 85 percent occupied. Most of the residents come from within 15 miles of the project, says Steiner, and are drawn by newspaper advertising and direct mail. The minimum age for residents is 62; the average age is 75. Despite the stiff fees, Steiner says that most of the residents are not wealthy people. "We're the only game in town that's strictly life care," he says.

The $37-million project is one of six life care projects General Health Management Inc. is helping to develop. The others are in Massachusetts, Florida, Pennsylvania and New Jersey. The eight-year-old management and development firm specializes in nursing homes and elderly housing.

Builders who want to enter the life care market should be warned that their management, financing and construction are different from conventional building, according to Steiner. "There are lots of subtleties," says Steiner. "Plus, more states are beginning to regulate life care. I think all of them will provide regulation within a few years.

"Life care is an enigma," he continues. "Is it real estate, or health care, or both? The key element is to be sure you have the expertise to do it. If you don't, hire or buy a consulting service, or just joint venture."

HIGH-RISE LIVING WITH HEALTH CARE

Park Summit is for those who want hospital facilities in a hotel environment. The Coral Springs, Fla., project sits on 11 acres of landscaped parkland surrounded by palm trees. Outside, there are tennis and shuffleboard courts, an Olympic-size swimming pool with whirlpool and cabanas, and putting greens. Inside, there are 215 apartments ranging from studios to three bedrooms, a central dining room (service includes linen napkins and crystal stemware), a library and an arts room. There's also a 35-bed nursing home, open to residents and nonresidents alike.

Developed and managed by Retirement Services Inc. (RSI) of Boca Raton, the community offers a wide range of support services. Housekeeping, catering, nursing, transportation, recreation and security services are provided by an in-house staff. RSI president Raymond Ronk says it's the service that attracts residents. "Most of our residents come from within 20 miles of here," he says. "They've already made the first move into retirement housing—most of them have been living in oceanfront highrises. We get people ready to make a second move. They're functioning well but don't know how much longer they can function independently."

Ronk says that though residents can join the community at age 65, most seem to enter between ages 72 and 78. The apartments at Park Summit aren't very different from what they've been used to at other luxury highrises: there are 11 floor plans, ranging from 700 to 2,000 square feet, and all have complete kitchens. But there are some reassuring touches, such as grab bars in the tubs and emergency nurse call switches in each bedroom and bath. "Our community is geared to respond to every state of health and independence," says Ronk. "A resident may choose to eat most of his meals in his own kitchen, or all three daily in the dining room, or have them brought to his room on a tray if he isn't feeling very well."

Such care doesn't come cheap. Entry fees range from $70,000 to $210,000, 75 percent of which is returned to the resident if he moves, or to his heirs if he dies. Monthly fees for services (including nursing care) are $600 to $1,620. Nonresidents pay $80 for a semiprivate room or $120 for a private room in the nursing facility.

Designed by Englebrecht and Griffin of Des Moines, and built by Sollitt Construction Company Inc. of South Bend, Ind., the $16.6-million life care center has signed up 44 residents since its November opening. "We use direct mail and on-site seminars, but most of our advertising is local newspapers and magazines," says Ronk. "We also rely a lot on word of mouth."

Park Summit is owned by a nonprofit corporation, Summit Communities of Florida, which employs RSI. "I recommend that any builder interested in life care hire a professional management team," cautions Ronk. "Coordinating all these services is a different animal from what most builders are accustomed to. It takes a long time to acquire the necessary expertise."

JULY 1985

BUILDER

THE MAGAZINE OF THE NATIONAL ASSOCIATION OF HOME BUILDERS ☐ A HANLEY-WOOD, INC., PUBLICATION

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CONGRESSIONAL INFO SERV E45
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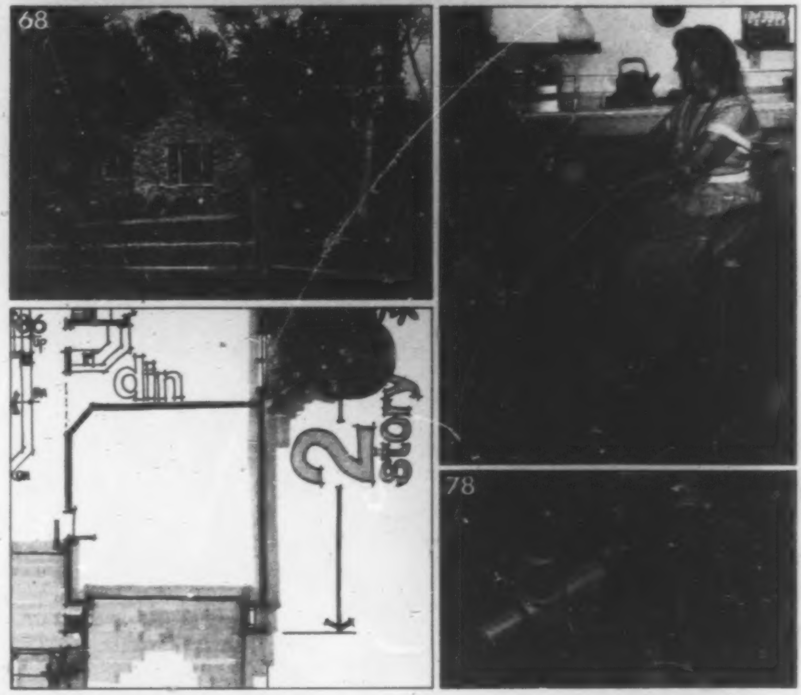
4520 EAST-WEST HWY
BETHESDA MD 20814

VOLUME 8, NUMBER 7 ■ JULY 1985

BUILDER



COLUMNS

5 About Building
16 Money
26 Washington
30 Marketing
34 Strategy

DEPARTMENTS

11 Outlook
98 Sketchbook
102 Shoptalk
107 NAHB Report
115 New Products
124 Product News
135 Ad Index
136 Mail

NEWS

38 Single-family surge softens condo fall
39 Reagan tax plan would hurt rentals
46 City helps builder keep units affordable
50 Poll: don't meddle with home deduction
50 S&Ls: leading source of permanent financing
54 Builders worry about housing the poor
60 Builders tell mayor they'll help rebuild

68—A STEP UP

As the red-hot starter housing market cools down, it's changing too. Price still is key, but buyers in the market now are willing and able to pay a little more for a little more house.
(Cover: Saddle Ridge, San Diego. Photo: Leland Lee)

78—NUTS AND BOLTS

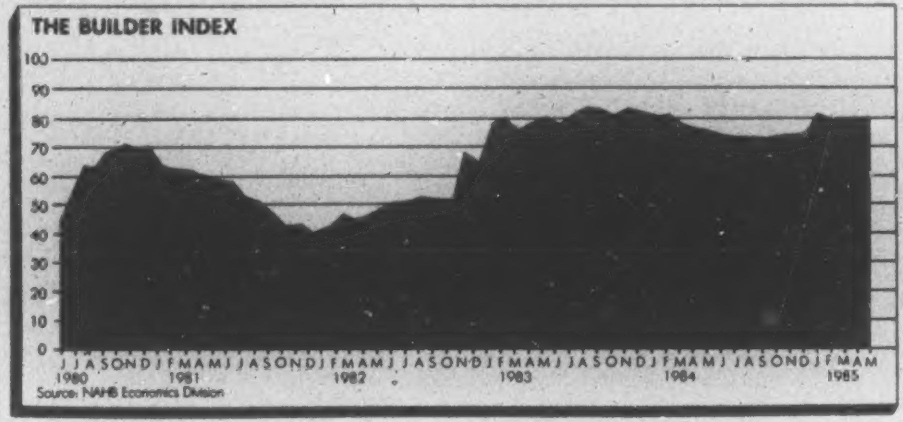
There hasn't been a major breakthrough in construction methods or materials for housing in a long time. There are, though, many good, new products and systems that save time and money.

86—DESIGN WORKSHOP

The second part of a series on design ideas for detached housing focuses on the symbol of success—the two-story house. Prepared with William Devereaux, AIA, Berkus Group Architects.

92—PROJECT OF THE MONTH

Designed and built exclusively for disabled residents of Marin County, Calif., Camino Alto Court has been a big success. The specially designed apartments rented immediately, and those who live there are exuberant about their new-found independence.



Source: NAHB Economics Division

The BUILDER Index increased in May to 79.12 as a result of a mortgage-rate decline and increased builder optimism.

The BUILDER Index measures near-term (3 to 6-month) housing activity. It is a composite of seven housing industry indicators: building permits, Government National Mortgage Association yields, the Producer Price Index (construction materials), framing lumber and plywood composite prices, builders' sales expectations, home buyer traffic and the confidence index of home buying. The base measurement period (100) is housing conditions in July 1978. The BUILDER Index is updated monthly.

Balancing Act

Michael Sumichrast
NAHB chief economist, Washington, D.C.

Almost everyone in the housing industry, including me, takes potshots at the federal government. But it's hard to fault some federal housing programs. Right now that's especially true of government-insured mortgage programs and tax-exempt revenue bonds.

Together they are helping to sustain housing starts at unexpectedly high levels. Yes, starts are down slightly from last year, but April's starts rate of 1.9 million is respectable by any standard. And tax-exempt revenue bonds deserve a great deal of credit. Last year bond volume increased 33 percent to $20 billion. Buyers and renters snap up bond financing because it carries lower rates, and the volume has been so high because the Treasury Department's tax proposal calls for discontinuance of the program.

The bond financing is usually targeted to and most attractive to first-time buyers whose biggest problem is usually affordability. That being the case, it's no wonder so many are running to three government mortgage insurance programs: FHA, VA and Farmers Home Administration (FmHA). In the first quarter of this year, when the total of all units sold actually dropped 4.6 percent, FHA, VA and FmHA activity increased by 13 percent. Even more dramatic was the increase from fourth quarter 1984 to first quarter 1985—activity up 47 percent and a 32 percent increase in the government-insured program's share of the total mortgage market. (Total FHA applications for home insurance are up 39 percent on a quarter-to-quarter basis from 1984 to 1985. The rate was up to 749,900, compared with 529,600 a year ago.)

The programs are popular because they require either a small or no down payment and they carry a fixed interest rate and low rates generally. (The VA rate is down to 11.5 percent.)

In spite of the boost from government programs, the national starts picture is mixed. The Northeast is the only region up from last year. The South, which accounted for nearly one-half of all starts, is down 14 percent for the first

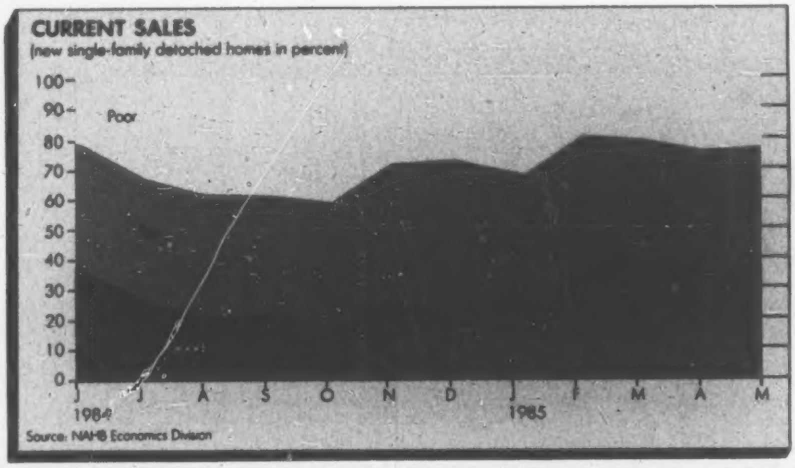
CONTINUED ON PAGE 13

ACTUAL HOUSING STARTS, FIRST FOUR MONTH COMPARISONS
(in thousands of units)

Region	1984	1985	Percent change
U.S. Total	549.4	519.2	−5.5%
Single-family	343.0	324.2	−5.5
Multifamily	206.4	194.9	−5.6
Northeast	44.1	59.3	+34.5%
Midwest	55.9	54.2	−3.0
South	303.1	260.3	−14.1
West	146.2	145.3	−0.6

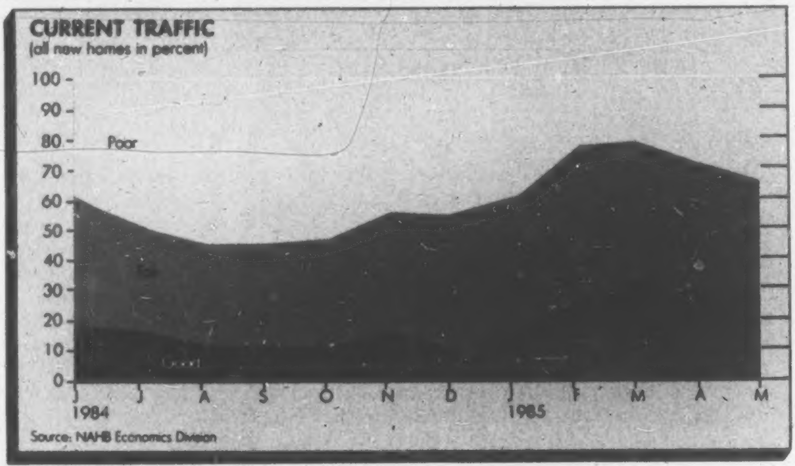
Source: Bureau of the Census

OUTLOOK/BUILDER POLL



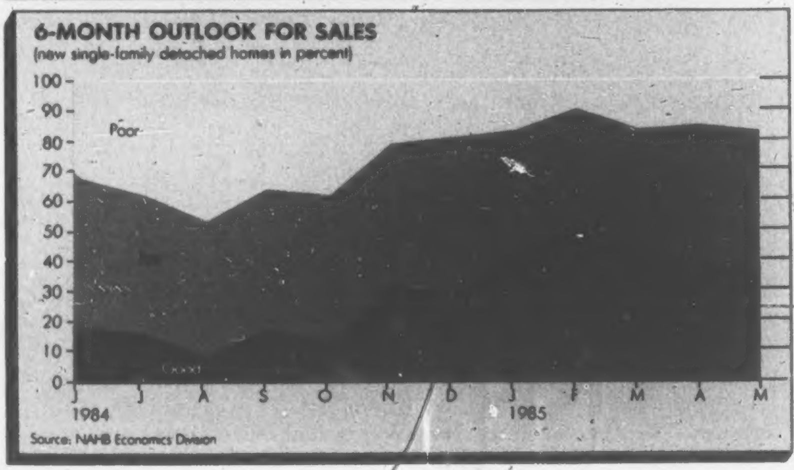
CURRENT SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division



CURRENT TRAFFIC
(all new homes in percent)

Source: NAHB Economics Division



6-MONTH OUTLOOK FOR SALES
(new single-family detached homes in percent)

Source: NAHB Economics Division

STEADY CONDITIONS

The May BUILDER Poll shows no big change, up or down, in buyer traffic, new home sales or builders' expectations. In effect the survey results indicate that the housing market in general is holding its own, but as has been the case all year, conditions vary considerably from one region to another.

Builders in the Northeast are the most optimistic by far. As one Connecticut builder put it, "There's tremendous demand for housing. It's almost unbelievable."

Almost 80 percent of builders throughout the Northeast classify current new home sales as good, and about the same number expect them to remain that way for at least six more months.

By contrast, only 14 percent of the builders in the West report strong current sales, and only 18 percent term the six-month outlook good. Builders in the South and Midwest are slightly more optimistic.

Interestingly, while the percentage of builders reporting or expecting good sales does vary widely from region to region, the percentage that expects sales to be poor over the next six months does not. It ranges from a low of 7 percent in the Northeast to 22 percent in the South and averages only 17 percent nationally.

The information on this page is based on a survey of approximately 800 builders: The survey, conducted each month for BUILDER by the NAHB Economics Division, asks builders to rate present new home sales, current traffic and the 6-month sales outlook as either good, fair or poor.

OUTLOOK/NOTES

MORTGAGE RATES DROP

The VA mortgage rate on single-family homes dropped to 11.5% in early June—the lowest rate in two years. It was the third 0.5% decline in less than three months.

MILEAGE LOG DROPPED

Builders no longer have to worry about keeping a running log of every mile they drive between job sites. After hearing from irate business people, Congress has repealed a provision in the 1984 Tax Act that required the keeping of contemporaneous written records to justify business expense deductions. Now it's back to the old way: Adequate written records or other evidence must be kept, but it isn't nearly the job it would have been.

MOBILE HOME INDUSTRY UNDER FIRE

The Veterans Administration investigation into fraudulent invoice padding in the mobile home industry (BUILDER, October 1984) has led to the indictments of four mobile home companies; all plead guilty to criminal charges of defrauding the VA. Fifty-two other manufacturers have not been indicted but agreed to plead guilty to similar charges. The companies agreeing to accept criminal settlement—criminal fines, civil damages, temporary debarment from the VA loan program—include some of the biggest mobile home manufacturing companies in the country and represent 70% of the industry's production capacity. This "packing" process added between $200 and $5,000 to the price of a mobile home, costing consumers some $100 million, investigators said.

The VA now is seeking wide prosecution of dealers.

MEDIAN PRICES UP SLIGHTLY

The median price of existing single-family houses sold across the country rose only 3.4% to $73,900 between the first quarter of 1984 and the first quarter of 1985, reports the National Association of Realtors. But median prices varied widely according to market, ranging from a low of $46,900 in Buffalo/Niagara Falls, N.Y., to a high of $132,100 in Anaheim/Santa Ana, Calif. Other high-priced metropolitan areas were New York/northern New Jersey/Long Island, with a median resale home price of $125,400; greater Los Angeles, $114,300; and Boston, $108,600. Median resale prices actually declined in six of the 43 metro areas surveyed: Anaheim/Santa Ana, down 1.1%; Birmingham, Ala., down 4.6%; Columbus, down 2.0%; Milwaukee, down 4.6%; Salt Lake City/Ogden, down 0.2%; and Tampa/St. Petersburg/Clearwater, down 4.5%. But resale prices jumped 10% or more in five metro areas, four of them in the Northeast: Boston, up 21.5%; Hartford, Conn., up 11.4%; New York/northern New Jersey/Long Island, up 24.7%; Syracuse, N.Y., up 13.1%; and Tulsa, up 11.5%.

EXISTING HOME SALES UP 6%

Thanks to lower mortgage rates, existing home sales in the first quarter of this year were higher in 24 states and the District of Columbia than in the same quarter a year earlier. Nationally, resales of single-family houses, condos and co-ops climbed nearly 6% during the period to an annual rate of 3.21 million, reports the National Association of Realtors. The highest resale rate during the first quarter was in California, followed by Texas and Pennsylvania. The largest percentage increases in resales occurred in Massachusetts, up 22.5%; Connecticut, up 22.4%; and Maine, up 20.8%.

CONTINUED FROM PAGE 11

four months of this year compared with the same period last year.

Housing starts in the farm and oil states also are down. And as long as housing starts in two-thirds of the states continue to run below last year's levels, 1985 cannot be stronger than 1984. Only two states are down in the Northeast—Maine and Rhode Island—but starts in the two totaled fewer than 2,000 units last year. On the other hand, New Jersey and New York are up 52 percent.

Other big housing-producing states are down: Texas by 36 percent, or 20,000 units; Florida by 6,000 units; Oklahoma and Colorado down 4,000.

In all the markets the multifamily sector is being supported by an increase in volume of tax-exempt revenue bonds, rent increases, strong demand (as many people feel the affordability pinch), conversion of rental units, slower price appreciation and fear of tax changes.

On the other hand, the condo market is not doing well. Maintenance problems, condo fee increases, deflated prices and lots of bad publicity have created a real image problem. As a result, unsold inventory is piling up; as many as 100,000 new units are sitting unsold.

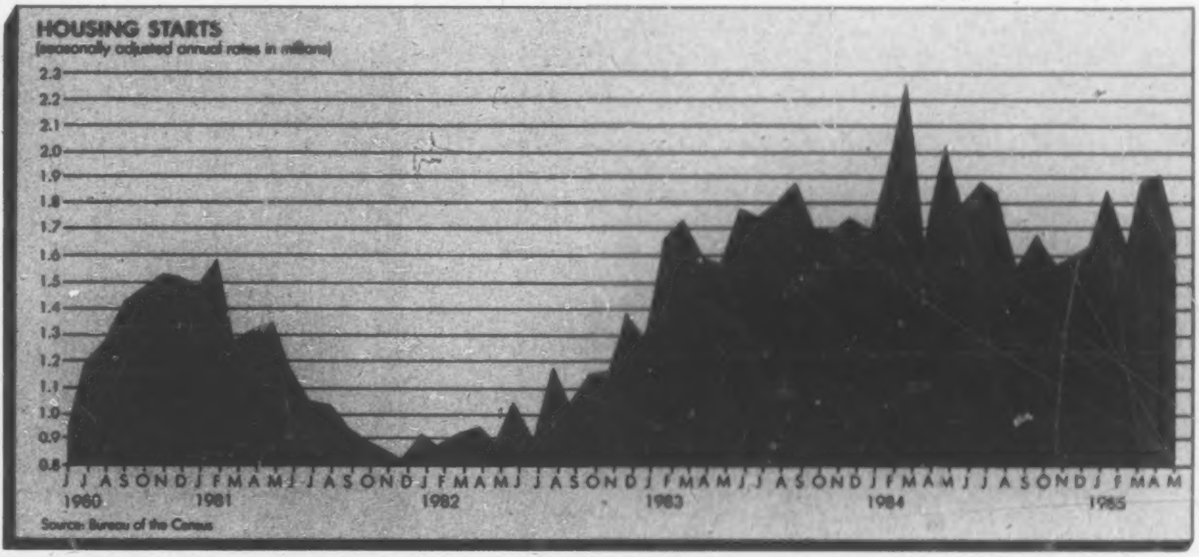
Actually deflation of new home prices is fairly widespread and particularly troublesome in areas with heavy overbuilding and declining economies. This is causing problems in the resale market and has had a dramatic impact on buyer psychology.

Other factors affecting the near future of housing are:

- A slowdown in economic growth and an expected increase in unemployment will cause interest rates to decline, but will be offset by the weakening economy.
- A slowdown in the FmHA program. Last year this program accounted for 3 percent of all starts.
- Higher FHA and VA user fees. This cannot help these programs and will mean that fewer people will qualify.
- Dramatic increases in land prices. The recovery has opened up demand and smart builders are already staying away from the bidding process.
- The tax proposal, which may discontinue tax-exempt revenue programs. In addition, it may make it hard, if not impossible, to build rental units.

On balance, then, our forecast for 1985 remains unchanged: 1.65 million starts, down from 1.75 million last year. Our base forecast shows a further decline in 1986 to about 1.5 million units. And that may well turn out to be an optimistic forecast.

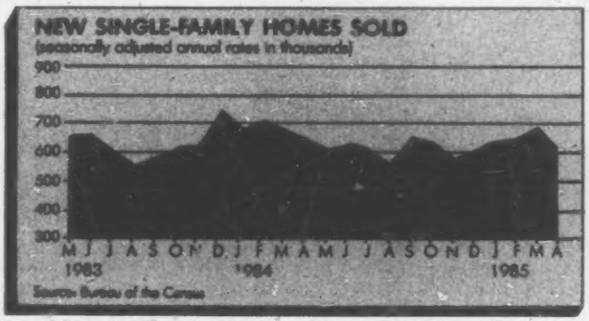
OUTLOOK/STATISTICS



HOUSING STARTS
(seasonally adjusted annual rates in millions)

Source: Bureau of the Census

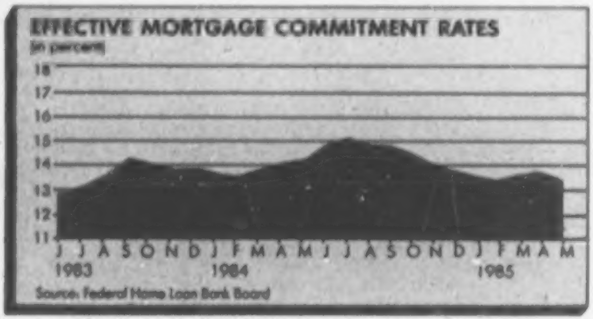
Starts dropped 14% in May to an annual rate of 1.66 million. Apartment starts fell the most, plunging 22.5% to an annual rate of 510,000. Single-family starts declined 10%. Total May starts were down 6.7% from a year earlier.



NEW SINGLE-FAMILY HOMES SOLD
(seasonally adjusted annual rates in thousands)

Source: Bureau of the Census

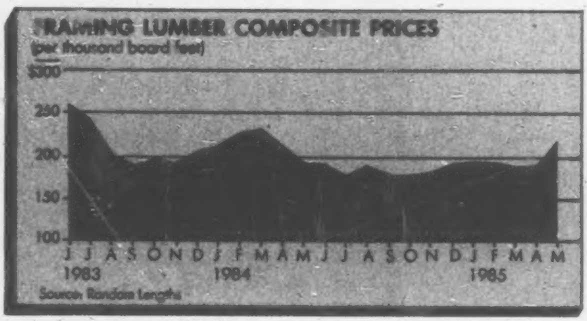
Sales fell nearly 12% in April to an annual rate of 612,000, reflecting the general economic slowdown. It was the first dip in five months. Sales were 5% lower than a year earlier.



EFFECTIVE MORTGAGE COMMITMENT RATES
(in percent)

Source: Federal Home Loan Bank Board

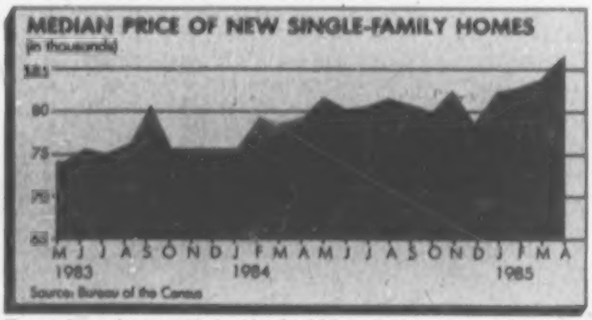
Long-term fixed rates declined 30 basis points in May to 13.51%, and uncapped adjustable rates fell 29 basis points to 11.51%. Fixed rates were 84 basis points lower than a year earlier.



FRAMING LUMBER COMPOSITE PRICES
(per thousand board feet)

Source: Random Lengths

Lumber prices jumped 16.8% in May to $223 per thousand board feet. It was the highest price in more than a year and 15.5% higher than the May 1984 price.



MEDIAN PRICE OF NEW SINGLE-FAMILY HOMES
(in thousands)

Source: Bureau of the Census

The median sales price climbed by $1,900, or 2.3%, in April to $86,200 from an upwardly revised March price. The April price was $6,600, or 8.3%, higher than a year earlier.

NEWS

ECONOMY

SINGLE-FAMILY SURGE SOFTENS CONDO FALL

The comeback story of the year is in the making: The single-family detached house, long-rumored to be on its deathbed, is up and around and doing quite well, thank you.

At the same time, the sorriest story of the year also is unfolding: Condo sales are poor in many markets; three-year inventories are piling up in several Sunbelt cities.

The single-family comeback started in earnest in February, when singles accounted for 1.13 million of 1.6 million annual starts. They advanced in March to the highest level—1.15 million—since last spring.

And single-family sales have surged along with starts. New, one-family houses sold at a healthy annual rate of 698,000 in March, 9 percent higher than February's 638,000 and 3 percent higher than March 1984's 677,000 annual sales rate.

Another sign of revival is Chicago Title Insurance Company's recent annual survey of home buyer preferences. According to the survey, 87.8 percent of first-time home buyers chose single-family detached housing in 1983; 89.9 percent—a 2 percent increase—chose them in 1984.

In 1985 there should be even more opportunities to make that choice. Across the country builders are beginning to adjust their product mix to emphasize detached homes.

At Hillsborough, a planned development in San Diego, BUILDER 100 company Pacific Scene had earmarked 642 lots for duplexes and 55 for zero-lot-line detached homes. The detached, built in the first phase, sold out within six months. Even though the duplexes are selling at a healthy six per week, Jon Werner, San Diego division manager for Pacific Scene, is switching 145 lots tagged for duplex to detached. The move will mean Pacific Scene can finish sales four months ahead of time.

Ryland Homes, a BUILDER 100 company based in Columbia, Md., builds both detached and attached houses in its Mid-Atlantic region. According to Richard Bryan, Ryland's vice president for marketing, the company is experiencing a 4 percent increase in single-family sales as well as an increased interest in move-up products. Accordingly, Ryland is adjusting its Mid-Atlantic product mix to favor detached houses and is increasing the size of the houses by about 15 percent.

Other markets are experiencing similar single-family revivals. As Herb Emmerman, president of Chicago-based Equity Realty, a residential marketing firm, notes, "There aren't many statistics to support it, but observation of the markets we're in tells you there's a great deal of activity in single-family detached."

One of these markets is Tampa, where, Emmerman notes, "They're selling the devil out of single-family homes."

Kenn Entringer, director of communications for J.L. Mason, the St. Louis-based BUILDER 100 company that's active in the Tampa market, spells out just how active the devil is. Mason has been building $35,000 condos targeted for retirees/snowbirds and $70,000 stacked condos geared toward the Yuppie and native-Tampa market.

"The $35,000 condos are a real hot project; we're holding our own on sales," Entringer reports. Not so the $70,000 units. "We're being beaten to death by single-family detached at the same price. Our targeted market is now looking at green lawns. The market for younger people who don't want to mess with maintenance—a basic market for condos—is thinning out."

Mason is offering 5 to 7 percent price concessions on the $70,000 units and, Entringer notes, competitors at that price range are now offering optional features as standard and similar incentives.

In Phoenix, the story is the same. "The condo market is slowing down because there are so many single-family houses for sale at competitive price ranges," reports Wolfgang Klien, executive vice president, SEG, a Phoenix-based builder.

National condo sales, which are down sharply according to *U.S. Housing Markets*, a publication of Lomas & Nettleton, a Dallas-based mortgage banker, have clearly been affected by the rise of the single-family market, but its current problems run deeper.

At the heart of the problem, according to *U.S. Housing Markets*, is an expectation that condo starts will decline this year by as much as 35 percent nationwide—from 190,000 in 1984 to 130,000 in 1985—and 50 percent or more in many Sunbelt markets. Dallas, for instance, projects 1,800 condo starts, compared to 4,500 last year and 13,500 in 1983. Unsold in-

SINGLE-FAMILY DETACHED STARTS
(in thousands)

Month	Total
March 1984	1,076
April	1,163
May	1,118
June	1,077
July	996
August	962
September	1,009
October	979
November	1,043
December	1,112
January 1985	1,060
February	1,135
March	1,171
April	1,159

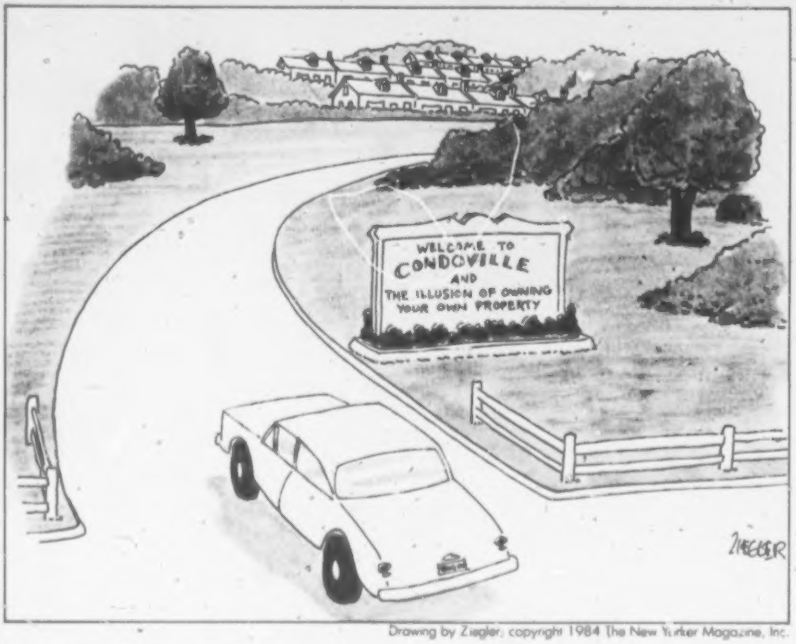
Source: U.S. Bureau of the Census

U.S. CONDO STARTS
(in thousands)

Year	Total
1974	175
1975	65
1976	95
1977	132
1978	156
1979	198
1980	186
1981	181
1982	170
1983	276
1984*	270
1985**	200-225

*estimated
**projected

Source: U.S. Housing Markets® Special Condos and Conversions Study



Drawing by Ziegler; copyright 1984 The New Yorker Magazine, Inc.

ventories in Dallas, San Antonio and other Sunbelt cities stand at two to three years.

Meanwhile, resale prices on condos have declined 15 to 35 percent in such diverse markets as Akron and West Palm Beach, Fla. Many units have seen no appreciation at all in the last two to five years.

The condo market traditionally has appealed to three types of buyers: first-time home buyers who were attracted to the lower prices condos afforded; investors who were looking for real estate appreciation and tax benefits; and empty nester/retirees who liked the maintenance-free lifestyle complemented by recreation amenities.

One of the problems facing the condo market is that two out of three of these buyers have abandoned the condo market.

First-time home buyers are finding single-family detached housing at the same price range and are opting, not unexpectedly, for the detached unit. In addition, adverse publicity about condo living—noisy neighbors, restrictive homeownership rules, costly structural repairs and aging recreation facilities—are creating an unfavorable buying climate.

"There was a surge in condo construction 10 years ago, and a lot of those projects are maturing. Repair and structural problems are surfacing, maintenance fees are increasing and that's affecting the market," notes Michael Sumichrast, chief economist for NAHB.

Investors, who made up more than one-third of the condo market in cities like Atlanta, Dallas, Houston, Phoenix and Tampa, have been hurt by lack of appreciation and negative cash flow that was often greater than the tax savings.

According to *U.S. Housing Markets*, some investor-owned luxury condos in Miami were renting for 50 to 60 percent of the mortgage payments. The result was a very high default rate on the investor-buyers' mortgages. Not surprisingly, mortgage insurers countered with a requirement of a 20 percent down payment for a nonoccupant buyer. This, plus the lack of appreciation, has virtually wiped out the investor market.

The retiree market, however, has been stable and, if anything, growing as the number of older people grows.

In spite of these widespread problems, the picture of a devastated condo market does not hold true across the board. Townhouse projects are doing much better than stacked condos—the ones built like garden apartments.

William Maybrook, vice president of Chicago-based Lexington Homes, points out that "the more single-family in nature the condo units are, the fewer problems they're having, especially in the suburban Chicago market."

And, while the Sunbelt is vastly overbuilt and reeling from inventories that Sumichrast estimates may be as high as 150,000 unsold new units, the Midwest and Northeast are treating condos more kindly. In cities where there is a history and premium attached to living downtown—cities like New York and Boston—condos are doing very well in downtown locations. Even in Phoenix, where there is an oversupply of condos, condos built in the inner city where they don't compete with single-family homes built in the outer suburbs are doing well, according to SEG's Klien. "There are people who want to live within 10 minutes of downtown, and if you target your project correctly, that condo market is there," Klien reports. SEG has been successful selling Morningside, in-town, stacked flat condos geared to the 32 to 45-year-old professional.

The situation is also positive in Los Angeles. "In Los Angeles proper there is no land to build a single-family tract, only scattered tracts where you can build condos. There's a tremendous need for housing within the center core," reports Mark Bornstein, vice president of Goldrich and Kest, the BUILDER 100 company based in Los Angeles that builds attached and stacked flat condos in the city and single-family units in the suburbs. "I can sell condos in the urban core because there are buyers with a desire for convenience and condos are the answer."

Penelope Lemov, business editor

GOVERNMENT

REAGAN TAX PLAN WOULD HURT RENTALS

President Reagan's new tax reform proposal treats housing better than the Treasury Department's plan, but it still would hurt the industry, especially rental apartment construction.

"Our initial analysis shows that the president's tax plan would increase rents and homeownership costs and reduce the value of existing real estate," says NAHB president John Koelemij.

"This proposal is better than Treasury-1," says Kent Colton, executive vice president of NAHB, "but it would still have a significant impact on the multifamily sector."

The president's proposal, unveiled in late May, would have nearly

CONTINUED ON PAGE 42

GOVERNMENT

POLL: DON'T MEDDLE WITH HOME DEDUCTION

Americans strongly support keeping the mortgage interest deduction for primary homes, but a majority would throw it out for second homes.

That was one finding of a national poll conducted for NAHB by Decision/Making/Information.

The survey of 1,500 people found that while 75 percent of those polled would save the mortgage interest deduction for primary homes, only 42 percent would keep it for second homes.

Despite the lack of popular support for the second home mortgage interest deduction, NAHB has vowed to fight for its survival. At a press conference held to announce the survey results, NAHB president John Koelemij was asked why people who don't have second homes should subsidize those who do through the tax system. He defended the deduction on grounds that second home construction stimulates the economy. "In some areas it's the only housing going up," he said.

On the other hand, the survey found ample support for retaining another homeownership deduction—that for property taxes. Some 71 percent want to keep it.

Overall, two-thirds of those polled support tax reform because they believe the current system is unfair and too complex. But only half said they were aware of any proposals to change the tax code.

Although none of the current tax reform plans would eliminate the mortgage interest deduction for primary homes, the survey sought to discover how such a change would affect home buying. Responses indicated that the mortgage interest deduction is not the primary motivation for buying, but eliminating it could affect a significant portion of sales.

Some 23 percent of renters said they would no longer want to buy a home if the mortgage interest deduction were ended. And nearly one-third of current homeowners said they wouldn't have bought their homes if they couldn't deduct interest.

In addition, 36 percent believe that the value of homes would decline if the amount of the mortgage interest deduction were reduced—a view shared by NAHB economists. But Koelemij seemed to contradict that position by denying that homeowner tax benefits raise home prices. "There is no direct link between tax shelters (for homeownership) and home prices," he asserted.

Not surprisingly, the survey found that buying a home is an important goal, especially among younger people. When asked "what good things would you like to happen to you and your family in the next five years?" buying a house ranked fourth behind good health, job security and financial independence, and just above winning a lottery.

However, respondents ages 25 to 34 ranked buying a house number one. Most of those surveyed (63 percent) also said that the federal tax system does too little to help young people own a home.

Carol Anderson

ELIMINATING HOUSING DEDUCTIONS

"Do you favor or oppose these changes in the federal income tax system?

	Strongly favor	Somewhat favor	Somewhat oppose	Strongly oppose	Don't know
Eliminate the interest deduction for second homes.	30%	27%	22%	20%	1%
Eliminate the deduction for property taxes.	13	15	23	48	1
Eliminate the mortgage interest deduction.	10	13	19	56	2

Source: Decision/Making/Information

FINANCE

S&Ls: LEADING SOURCE OF PERMANENT FINANCING

Savings and loans outpaced both life insurance companies and commercial banks in permanent lending activity for commercial and apartment projects during the second half of 1984, according to a survey by the Urban Land Institute (ULI).

The results were a dramatic turnaround from the first half of 1984, when S&Ls trailed life insurance companies and banks in the number of loans made.

ULI's second semiannual survey also showed that Wall Street investment bankers and real estate syndicators are becoming important sources of real estate debt and equity. Wall Street firms were not mentioned by respondents in the first survey.

Office buildings continue to be the most popular type of construction among all the builders surveyed, even though pre-leasing has declined. In the fourth quarter of 1983, pre-leasing was at 22 percent; during this period in 1984, it was 17 percent.

Another trend the survey uncovered was an increased willingness of lenders to make uncovered or open-end construction loans. In 1983, one project in seven used such loans; in 1984, one in five did.

Builders also are using public financing programs, such as industrial development bonds or Urban Development Action Grants, and rehabilitation tax credits. The survey showed the weighted average interest rate for publicly financed programs as just under 11 percent. Private source loans

CONTINUED ON PAGE 54

SOURCES OF PERMANENT FINANCING

All loans	Percent total
Savings and loans	22.9%
Life insurance companies	18.7
Commercial banks	18.5
Public financing	6.4
Mortgage bankers	6.2
Pension funds	5.6
Savings banks	5.4
Other (including credit corporations, Wall Street firms, REITs and syndications)	16.6

Source: Urban Land Institute

CONTINUED FROM PAGE 50

have a mean interest rate of almost 13 percent.

Data for the survey came from 477 projects with a total value of $8.3 billion.

June Fletcher, features editor

GOVERNMENT

BUILDERS WORRY ABOUT HOUSING THE POOR

Now that the federal government has all but washed its hands of subsidized housing programs, builders are beginning to wonder where poor people are going to live.

That was the big question at a Low and Moderate-Income Housing Conference sponsored by NAHB in late May. The Washington, D.C., conference was the most tangible indication yet of builders' growing concern over the gutting of federally assisted housing programs. But that concern has come too late to save many of the programs.

Federal housing subsidies have been cut by two-thirds since the Reagan administration took office "and now they're prepared to cut the other third," charged John Linfield, executive vice president of the National Housing Conference.

At least one conference speaker said home builders share the blame for that. "The constituency for low and moderate-income housing disappeared—including this group," said George Sternlieb, an urban policy expert at Rutgers University.

Miami builder Hank Green agreed. "We're sleeping at the switch here in this industry," he said.

While there was dispute about whether various programs had been successful or not (Reagan administration representatives said not), the consensus was that housing poor people is inherently expensive and that the federal government simply isn't willing to foot the bill anymore.

So, what now?

For one thing, local governments need to do their share, said Rep. Stewart McKinney, ranking Republican on the House housing subcommittee. Cities could donate land, move to make use of abandoned buildings and lots, provide infrastructure or forgive property taxes on low-income housing projects.

"Congress should help, but the attitude that just the federal government can do it is wrong," McKinney said. "We can do the job, but we need everybody playing."

Tucson builder and former NAHB president Pete Herder agreed that a public/private partnership is about the only way left. He outlined a smorgasbord of programs and financing sources used to build affordable apartments and houses in Tucson.

The city kicked in the land, used Community Development Block Grant (CDBG) funds to help build infrastructure and delayed property tax payments. The state pitched in with money for land improvements and infrastructure.

More funding came from the Urban Development Action Grant (UDAG) program and the use of tax-exempt industrial development bonds for apartments and tax-exempt mortgage revenue bonds for single-family houses.

Another program under way in Massachusetts provides loans to developers to reduce interest rates on new rental projects where 25 percent of the units go to low-income people. After 15 years, the loans must be paid off and projects can be sold. The state plans to plow repayments back into the program to build more apartments or assist existing tenants.

Called SHARP (State Housing Assistance for Rental Production), the program is working successfully in Massachusetts and could work at the federal level too, said Marvin Siflinger, executive director of the Massachusetts Housing Finance Agency.

But he stressed that the program can't meet the need for low-income housing in his state without federal programs like HODAG (Housing Development Action Grant), UDAG and CDBGs. (The Reagan administra-

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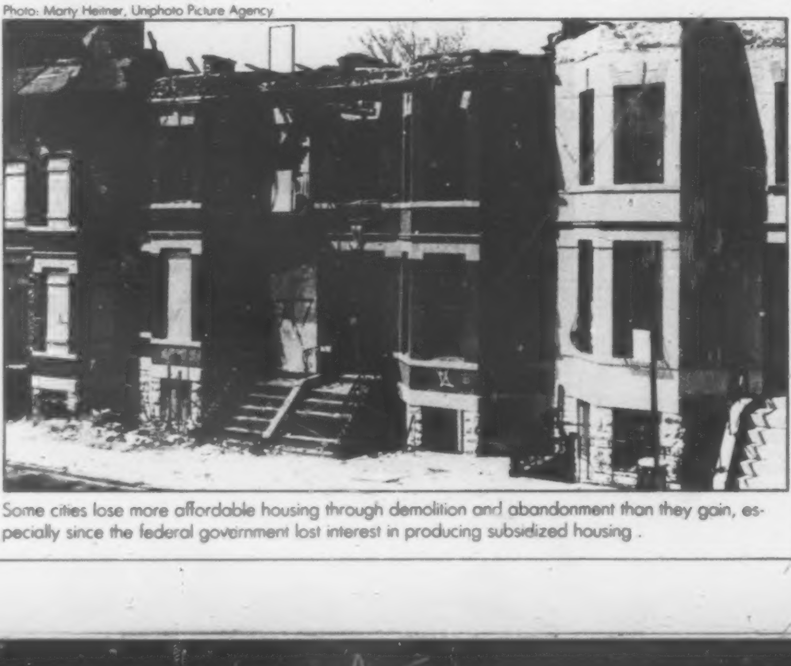
Photo: Marty Heitner, Uniphoto Picture Agency



Some cities lose more affordable housing through demolition and abandonment than they gain, especially since the federal government lost interest in producing subsidized housing.